FINANCIAL MANAGEMENT IN U.P. STATE ROAD TRANSPORT CORPORATION

Thesis Submitted for the
Degree of
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to the
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PREFACE

In the process of economic development of a mixed economy like India, the co-operation between Government as well as private sector is highly essential. Without such cooperation sound-base can not be provided for the rapid growth of country. The central government as well State Government has been established a large number of public enterprises in the country. The main objective behind promoting large number of these enterprises has been mainly to gain control of the commanding hights of the economy.

The state government of U.P. took the lead and has so far invested about Rs. 663074 lacs in about 61 operating public enterprises. Today these enterprises cover a vast and varied range of activities. The UPSRTC is the second biggest in terms of employment and fifth in terms of investment.

I have always been careful to make as dispassionate and detailed study as could be possible in the circumstances. In this study I have depend upon the information compiled with the help of various annual reports and relevent doccumentary of UPSRTC. An humble attempt has been made to analyse the financial growth of UPSRTC covering its investment patterns, working performance and employment structure. For the purpose the study has been divided into 7 chapters. The first chapter is covering meaning, scope

and importance of financial management, second chapter covers growth of public enterprises in the state, third covers growth of UPSRTC. An attempts has been made about longterms as well as shorterms financial management in UPSRTC. A critical study of finajcial apprailsa in UPSRTC has been also discussed in the last chapter.

In this project, firstly, I am indebted to my parents most who have encouraged me constantly to undertake the research work. I have dedicated my thesis to them.

I, whole heartly express my sincere feeling of gratitudes regards and thankfulness to my Guru Ji and guide Prof (Dr.) Jagdish Prasad Under whose guidance and supervision, it has been possible for me in getting this onevous work completed.

I do not find to express my gratitude and indeptness to Ex-Prof. B.N. Asthana, Ex-Prof. J.S. Mathur and Prof. G.C. Agrawal, head faculty of Commerce and Business Administration University of Allahabad.

I am also grateful to Shri Chandra Prakash Astt. Librarian university of Allahabad who provided me all valuable information and relevent materials on the subject.

In this project I am also indebted to the managing Director, and Regional managers of various Depots of UPSRTC.

I express my sincer feeling of gratitudes, regards to Shri R.M. Diwedi Ex- Principal of B.B.D.P.G. College Paruiya Ashram, Faizabad. His love and effection have always been a source of inspiration to me.

My special thanks are due to my younger brothers Mr. R. Murti, J.T.O. Deptt. of Telegraph Mr. S. Pujan, M.Com, and Mr. Radhey Shyam M.Sc. (Previous), Allahabad University, who showed special interest in the work.

In the end I shall be failing in my duty if I do not express my thankfulness to Shri Ram Raj Pandey who typed manuscript so neatly and timely,

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Ist Nov.' 1990.

C O N T E N T S

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CHAPTER I

INTRODUCTION

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Introduction-

Financial Management is concerned with the managerial activities pertaining to the procurement and utilisation of funds for business purpose. In the words of Charles L. Parther, "The finance activity involves acquiring and administering the funds of the firms." [1] Thus, it involves the operational activity of a business enterprise that is responsible for obtaining and utilising the funds required for its efficient operations.

Undoubtedly, finance is the life blood of business.Financial management may be rightly termed as the science of money. We need finance for the production of goods and services as well as their distributions. The efficiency of production and marketing operations is directly influenced by the manner in which the finance function of the enterprise is performed by the finance personel. The ambitious plans of a businessman would remain mere dreams unless adequate money is available to convert them into reality. In the early ages of industrial development capital was not of much significant and financial requirements of business were limited. The method of production was extremely simple and the tools and equipments used were quite crude and inexpensive. Labour was more importa n t than capital. Production could be termed as labour intensive. Under such a set-up, finance

1. Charles L.Parther, Financing Business Firms, Irwin, Homewood, Illions, 1966, Page.4

fid not pose any big or serious problem. As industry grew and the method of production became increasingly complex and the machines, tools and equipment became more expensive and the financial requirements of industries also grew. The industrial revolution changed the very nature and complex of industry. Production began to be carried on a mass scale for national and international markets. This necessitated the use of huge and complex machinary and very large quantities of raw materials. Manufacturing operations had to be conducted in big factories. All these development made industry capital intensive and capital became one of the most important factor of production.

In modern age, there are three important activities of the business firm - finance, production and marketing. Finance is taken to be the most important factor of all the three. The changing facets of finance can be analysed by dividing the entire process into three broad concept.[1] It starts from the early part of the present century wherein finance is regarded as just cash only. In other words, this approach just emphasises only on the liquidity and financing of the enterprise. It is believed that since nearly every business transaction involves cash, directly or indirectly, finance is concerned with every thing that takes place in the conduct of the business. But, it is important to note that the meaning of term 'Business' as used here, is too broad to be meaningful.

In the second step of evolution, the traditional approach became prevalent. It is concerned with raising of funds used in an enterprise, and covers (i) instruments, institutions and practices through which funds are raised

1. Ezra Soloman, The Theory of Financial Management New Yark, Columbia University Press, 1963 Chapter 1- Page.3.

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and (ii) the legal and accounting relationship between the compa ny and its sources of funds including the redistribution of income and assets among these resources.

This concept of finance is broader than the first one. Although the problem of financing business enterprises during the 1940 $_s$ and early 1950 $_s$ was dominated by this'traditional approach', it could not last for a longer period because this approach totally ignored the function of an efficient employment of resources.

The modern approach of finance involves an 'Integrated Approach' to finance. According to it, finance is concerned not only with the raising of funds but their administration also. This approach to finance is thus concerned with (a) determining the total amount of funds to employ in the firm (b) allocating these funds efficiently to various assets and (c) obtaining the best mix of financing i.e. the type and amount of corporate securities.[1]

The traditional approach outlived its utility, in the changed business situation since the mid 1950$_s$, because of its emphasis on the episodic financing and lacking in 'sound theoretical underpinnings'. Various economic and environment factors have changed the approach to, and the scope of, financial management. The emphasis has shifted from episodic financing to the managerial financial problems, from raising of funds to efficient and

1. Ezra Soloman, The Theory of financial Management, New Yark, Columbia University Press 1963, Chapter 1, Page-22.

effective use of funds. The modern approach embodied with sound analytical theory.

Function of Financial Management-

According to Herbert G.Hicks and C.Ray Gullett-

"The Manager of finance activity is the guardian of the firm's money" [01]. To prove himself as an efficient guardian, the finance manager of a modern business enterprise has to deal with four management functions in finance- viz. (1) Planning (2) Organising (3) directing and (4) controlling the financial activities of an enterprise. All these are analysed as under-

1. Planning: Planning the financial activities involves setting up of objectives and targets that an enterprise seeks to achieve within a certain period of time. In other words, it involves three important aspects, viz., (i) setting up of objectives, (ii) methods of implementation of the various plans for the purpose of realising the objectives set-out; and (iii) making necessary adjustments and integration.

   Financial planning is a very systematic job which only an experienced financial manager can perform most efficiently. He has not only to estimate the fixed as well as the working capital requirements but also formulate the capital structure

01. Herbert G.Hicks, C.Ray Gullett. Modern business management McGraw-Hill Kogakusha, Ltd. Tokyo, 1974, Page-258.

to determine the various types of securities and their relative proportion whereby the total capital is to be obtained. Besides, he should also plan the actual procurement of fixed and working capital supply but also the actual uses for which the capital so procured should be put.

2. Organising function-

The organising function of management is concerned with coordination of the responsibility for various operational areas in the financial set-up so that specific results are expected from different action points. The financial manager should fix up responsibilities of various experts with maximum care.

3. Directing function-

The various objectives indicated by the planners in the chart under the financial planning function should be properly communicated by the financial manager to all other section Heads engaged in the financial division so as to make them understand what they are expected to do and how.

4. Control-

The control function of financing focusses on knowing and judging performance in various ways. The three major aspects of this function are: (i) knowing performance actuals; (ii) judging performance against standard targets etc; and (iii) taking necessary corrective action which in turn involves removal of snags as well as revision of targets.

The controlling function can be undertaken by taking objectives and targets as norms against which actual performance is observed for determining the variances , if any; which may be both favourable and unfavourable. From the stand point of the management excessive favourable variance is as bad as excessive unfavourable variance. This is because wide variance indicates, the failure of financial management. Based on the nature of these variances, corrective action should be taken both in the financial division as well as in other operational areas. Financial management is a day-to-day operational system of managing the funds of the enterprise in such a way that would give the best results in the given circumstances. Since almost all kinds of business activities directly or indirectly involves acquisition and utilisation of funds, an inseparable relationship exists between the finance function on one hand and production, mkarketing and other functions on the other. Despite this we can broadly identify two kinds of finance function,- viz.-

(1). Managerial Finance Function, which requires skilful planning, organising, control and execution of financial activities as explained in the preceding paragraphs.

(2). Routine finance function which do not require a great managerial ability to carry them out. Generally they just involve clerical functions as they are incidental to the effective handling of the managerial finance functions.

The routine finance functions will have to be

performed in order to effectively execute the managerial finance functions. The important routine finance functions are:

(i). Supervising cash receipts and payments and safeguarding cash balances,

(ii). Safe-keeping of securities and other valu ble documents like insurance policies, etc;,

(iii). Procuring and preserving mechanical details of fresh outside financing, if any,

(iv). Record keeping and reporting.

According to Ezra Soloman, "the function of financial management is to review and control decisions to commit or recommit funds to new or ongoing uses. Thus, in addition to raising funds, financial management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or distribution of assets." [01]

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01. Soloman, Ezra, The Theory of financial Management, Columbia University Press 1969, Page 3.

Objectives of Financial Management.

It is generally agfeed that the financial management objective of the firm should be the maximisation of owners' economic welfare. However, there is disagreement as to how the economic welfare of owners can be maximised. Two well known and widely discussed criteria are put forth for this purpose are-

(A) Profit maximisation (B) Wealth maximisation.

(A). Profit Maximisation:

Profit maximisation means maximising the rupee income of the firm. Traditionally, the business has been considered as an economic institution. As such, it has developed a common measurement of efficiency, viz, profit. It is, therefore, possible to assume profit maximisation as a natural business objective.

But the critics of profit maximisation as an objective of financial management argue that profit maximisation is a consequence of perfect competition and that in face of imperfect modern markets today, it can not be a legitimate objective of the business enterprise. As Antony, Robert remarks,[01] in this changed business structure which is now chracterised by limited liability and a divorce between management and ownership, i.e., holders of equity shares and creditors. The owner-manager of the 19th century has been replaced by professional manager who has to reconcile the conflicting objectives of

01. Antony Robert, N., The Trouble with profit maximisation Harvard Business Review, (Nov-Dec.1960) pp.126-34

of all parties connected with the business unit, viz., creditors, customers, employees, government etc. As such, profit maximisation, in this new business environment looks unrealistic, difficult and immoral.

Besides this, as Soloman opines, profit maximisation has been rejected as an operational criterion for maximising the owner's economic welfare as it can not help in ranking alternative courses of action in terms of their economic efficie-ncy.[01] This is because it is vague, it ignores the timing of returns and it ignores risk.

(B) Wealth Maximisation

Wealth maximisation, as an objective of financial management is now regarded as an appropriate and operationally feasible criterion. This is because, it provides an unambiguous measure of what financial management should seek to maximise in making investment and financial decisions.[02]

Wealth maximisation means maximising the net present value of a course of action. The net present value of a course of action is the difference between the gross present value of the benefits of that action and the amount of investment required to achieve those benefits. The gross present value of a course of action is found out by dicounting or capitalising its benefits at a rate which reflects their timing and uncertainity. A financial action which has positive net present value creates wealth and, therefore, is desirable. A financial action resulting in

01. Soloman, Ezra, The Theory of Financial Management, Columbia University Press, 1969, Page-19

02. Ibid, p.22.

negative net present value should be rejected.

The rationale in using wealth maximisation concept as an operating financial management policy, can be summed up from different stand points as follow:

(1). The interest of the supliers of Loan Capital-

Short Term and Long term supliers of loan capital are totally safeguarded by the wealth maximisation objective. This is because, if a company pursues the policy of maximisting the wealth of share-holders who are legally eligible to get their share only from balance of the earnings that remains after settling the due of the supliers of loan capital, there is no risk to such suppliers of loan capital. They are legally entitled to a fixed rate of interest on their capital, besides enjoying a prior claim on the earnings.

(2). Employees-

Employees' interest are also protected by the corporate policy of wealth maximisation. It is, of course, true that the trade unions should, through their bargaining process, achieve a fair share in the wealth that is maximised to all the employees of the company.

(3). The Management's Interest-

Although certain situations, causing conflict between the share holders and managements goals, were to emerge on certain occasions, the management can survive in the company for a considerable length of time only when it accepts the objective of wealth maximisation as a guiding rule, and take precautions to ensure that its actions are always

governed by it. When once it accepts wealth maximisation as a normative guide, it can also keep the shareholders of the company happy.

(4). Society-

Acceptance of the wealth maximisation objective by any firm, will also benefit the society. There are many social responsibility of a firm, such as the supply of quality products at low prices to the customers, maintaining cordial industrial relations, etc. which are only possible by the wealth maximisation.

Bas.d on the foregoing discussion, we can easily say, maximisation of wealth should be regarded as operting objective by which financial decisions are to be guided.

Financial Management of Public Enterprises

Public enterprises play a significant role in the economic growth. The performance of these enterprises is held under critical observation by the various segments of the society. The critical observation has two aspects, on the one hand there is a comparision between the performance of enterprises in public and private sector and, on the other, those enterprises are subjected to test on the basis of the return on the huge public investment in the public sector.

In a capital scare economy like India, the allocation of investment in the public sector obviously to be viewed with great concern because the socio-economic objectives of the state do not only aim at raising the standard of living of the masses but also generating adequate capital to be

invested in the economy. This obviously directs our attention to the need of an efficient management of public enterprises. Efficient financial management has contributed significantly not only to profitability but also to the creation of a balance between the procurement and the utilisation of funds. Hence, the need for better financial management in public enterprises has been felt particularly in the light of revised policy.

The management of public enterprises, like any other enterprise, has to pay utmost attention to the effective management of all resources including the finance available to them.

Public enterprises, basically are the commercial organisations and so finance becomes the key factor for all activities. Finance is the source and at the same time constraint in decision making process.Finance It involves two important functions, viz, (a) Raising funds necessary to initiate a new activity and (b) It provides the basis of continued operation.

In public enterprises as well as in other organisation, finance may be of three types i.e., (i) Long term (ii) Medium term and (iii) Short-term.

Long term and medium term finance constitutes the following:

(a) Public equity shares and bonds,

(b) Loans from banking and financial institutions,

(c) Debentures.

Funds for the acquisition of productive assets are obtained either internally or externally or by a combination of both. Internal sources of funds can be

generated by retained earnings and depreciations.

The major part of external finance of the public enterprises is provided by the government in the form of equity capital and loans. The long-term finance is also procured from the financial institutions such as Industrial Finance Corp. of India, Industrial development Bank of India, Life Insurance Corporation of India for their expansion programme. Because of the rigid conditions imposed on borrowing from specialised institution, they constitute a very significant part of total loans raised by public enterprises.

An important area of management of funds of the public enterprises is extended to the surpluses retained withi the enterprise. On the one hand it is felt that a higher rate of retention of surpluses is advantageous to the public enterprises because of (a) Quick availability of funds for expansion and comparative case in obtaining government's sanction for a project finance by internally generated resources. (b) Freedom enjoyed by enterprise to reinvest its surpluses subject to, no doubt, national priorities. (c) Elimination of necessity of obtaining government's sanction in case of minor decision or replacement modification or marginal expansion. (d) Protection of the image regarding the macro as well as micro efficiency of the public enterprises.

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On the other hand, the retention of surpluses of public enterprises can distart the optimum allocation of resources. However, effective and trained financial manager is very much needed for raising internal funds or strengthing government resources with surpluses of public enterprises.

Should we have trained financial managers for different type of public enterprises or should we have general cadre of financial manager? The latter seems to be a better proposition. It is, therefore, essential to establish a proper institutional frame work for providing facilities for training financial managers of different levels. Before posting any financial manager in public enterprises, it should be ensured that undergoes on orientation in financial management for the specific type of the concerned public sector unit.

In an economy like India which is being progressively socialised the entire fiscal structure has to be built on the stray foundation of profitable public enterprises. Deficiencies in the organisation of financial management function ultimately refledts on profitability in view of the absence of requisite sensitivities in different directions. "If the public undertakings are to function on business and commercial principles it is imperative that their administrative and financial procedures are consistent with their requirement. However, these undertakings have largely copied the bureaucratic procedures obtaining in the Government departments. Mejority of them have yet to set up adequate finance and accounts organisations. The auditors have repeatedly pointed out the inadequacy of financial control and internal audit system." [01]

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01. Administrative Reforms Commission, Report on Public Sector Enterprises October 1967, Page 56.

The Financial Organisation of the Public enterprises may be divided into different departments/sections as follows:

(1). Accounting,
(2) Budgeting,
(3). Internal Audit
(4). Cost Control
(5). Balance sheet and Profit and Loss.
(6). Statutary Audit.

(1). Accounting:

The maintenace of cash book and accounts, payment of bills, preparation of profit and loss accounts etc., are also the responsibility of the finance division of the public undertaking with the director finance and its head. Accounting duties may be classified into (a) Cash accounts (b) Store-accounts (c) Establishment accounts and (d) Commercial accounts. All such accounts are properly worked into by suitable officers.

The accounting system is the major qu ntitative information system in almost every organisation, at the same time it provides an effective tool of financial control. It should provide information for three purposes, viz.,

(i) Internal reporting for managers for use in controlling routine operations,
(ii) Internal reportinf for managers for use in making non-routine decisions
(iii). External reporting to stock holders, government and other outside parties.

(2). Budgeting-

The budget of a company is its financial blue-print

for a specified normally 12 months. It is one of the chief instruments of financial control as well as authorisation where by the administration is enabled to carry out its polices and programmes. It has been suggested by the Administrative Reforms Commission that the public undertakings should prepare a comprehensive budget to embrace the entire organisation. The budget of a public enterprise has also to meet the requirement of accountability. The Estimates Committee in its report on Budgetary Reforms has recommended that industrial undertakings should prepare a performance and programme statement for the budget year and that this statement should be made available to parliament along with the previous year's statement at the time of the presentation of annual budget.

The budget, at present, is used mainly for defining of physical targets against which actual results are compared at the end of the year. Budget should be looked upon merely as an instrument that provides the basis for obtaining funds or as an instrument of control over those who are authorised to spend.

"The budgeting system should provide for a regular system of financial and work plans for approval, execution, reporting and the evaluation of scheme and projects. Towards that end, an adequate system of reporting and evaluation has to be developed to support performance budgeting." 01.

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01. A.R.C.Report of the study team on financial management. May, 1967, Page.184.

(3). Internal Audit-

Internal audit is another important weapon of financial control. It is managerial control and its objective is to provide assistance in discharging the managerial functions. It differs from the audit conducted by the Comprtoller and Auditor General as the objective of the latter is to examine the propriety of the financial transaction. In a large industrial enterprise, the scope of control and supervision that can be exercised by the Supervising Officers is limited. It is expedient to set up a full-fledged internal organisation in such undertakings to be continously engaged in inspection and internal appraisal of performance. Internal Audit in relation to public undertakins should not be viewed as an additional check exercised in advance of external audit.

(4). Cost Control-

Cost control as the part of financial management function has attracted due attention in recent years in public enterprises in India. This function is performed by the finance division of undertakings. The cost account department is responsible for maintaining cost accounts. The importance of cost control has been emphasised by the planning commission and Parliamentary Committee on public undertakings that cost reduction unit should be established in each project and standard costing should be adopted. In absence of a proper costing system the price of the

product can not be fixed correctly and adequate control of various elements of costs can not be exercised.

(5)- Balance sheet and Profit and Loss Accounts-

The balance sheets and profit and loss account presented every year in the meeting of the Board of Directors of the company also provide an opportunity for exercising internal financial control. The balance sheet should be intended to convey a truthful statement as to the company's financial position, and should not conceal any known cause of weakness in thatposition. Balance sheet is an important mechanism through which the financial operation is controlled. This provides a vide range of opportunities for the authorities concerned to make an over all assessment of the situation. Alongwith the balance sheet, profit and loss account of the company is also prepared and presented to the Board of Directors meeting every year.

(6). Statutory Audit-

All the Government Companies are subjected to audit by Chartered Accountants generally called Statutory Audit. By the virtue of the powers vested under s ction 619 of the companies act, the Comptroller and Auditor General can give directions to the auditors regarding the manner in which the company's accounts shall be audited and can give to such auditors , instructions with regard to any matter relating to the performance of their functions.

The auditors of the company are appointed by the Central Government on the advice of the Comptroller and Auditor General of India.

Development of Public Enterprises.

The development of public enterprises in India started mainly after independance. During the past-independance period the State Government expanded their activity in several fields, with the initial and primary emphasis on promotional and development undertaking. The speedier growth, infact, started with the second five years plan period

It has been rightly remakred by our former Prime Minister Shri Rajiv Gandhi that the public sector is not just an industry but an 'article of public faith'. These enterprises have become the basic pillers of self-reliance, scientific and technological development and speedy industrialisation depend upon how with their leadership steers them ahead.

At the time of indpendence, the agriculture and industrial sectors were in primitive stages of development and government has no comperhensive programme for the country's economic development. It was in 1948 that government announced its first Industrial Policy to accelerate economic growth. In this policy it was remakked that the problem of state particpation in industry and the condition in which private enterprises should be allowed to operate, has to be judged in that context. This resolution recognised the principle of fixed economy, in which the private and public sectors would operate side by side to achieve the objectives.

In this pobicy all the industries were divided into four broad categories. In the first category the central government was given the exclusive monopoly to manufacture of arms, the production and control of atomic energy and the management of Railways transport.

The second category covered six industries viz. coal, iron and steel, aircraft manufacture, ship building, Manufacture of telephone, telegraph and wireless appartus and miniral oils.

The third category consisted of these industries were regarded necessary in national interest and they were subject to the control and regulation in consultation with the provincial government. This category covered 18 basic industries, viz-

1. Salt	2. Automobiles
3. Primemovers	4. Electric engineering
5. Heavy Machines	6. Machine tools
7. Heavy chemicals	8. Fertilizers and drugs
9. Electric chemical industries.	10. Non ferrous metals
11. Rubber Manufacture	12. Power and industrial alcohal
13. Cotton Textiles	14. Cement
15. Sugar	16. Paper and news prints
17. Air and Sea transport and	18. Defence industries.

The fourth category of industries covered the rest of the industrial field which was open to private enterprise, individuals as well as co-operative. Although the government retained the right to interfere when it think necessary.

The need for change in industrial policy was felt soon as several important development and taken place since then, Main of them were; adoption of directive principles of state in the constitution and top priority given to heavy industralisation in the second five years plan with the result the government announced its second industrial policy resolution on April 30, 1956. In this policy, public sector

was given predominant role to play in the development of the country. All the industries were divided into three categories. There are 17 industries listed in Schedule 'A', in which case the state has undertaken the responsibility of establishing all the new units. In the second category, there were 12 industries listed in schedule 'B', which will be progressively state owned and in which the state will generally take the initiative in establishing new undertakings. In this category the private sector has also been allowed to develop industrial enterprises of its own or with state participation.

The third category comprises all other industries not listed in Schedule A & B. They have in general been left to the initiative and enterprise of the private sector. However, the State has reserved its rights to interfere even in this category.

The resolution contemplates closer co-operation between the public and private sector and made it clear that the policy of the government is to assist the private sector so that it may feel confident, function efficiently and may assist in the economic development of the country.

The changing condition and the growing experience again necessitated modifications in the industrial policy, 1956, on February 2, 1973. The Government of India announced some important changes in it providing for the operation of a joint sector and redefinition of larger industrail houses to prevent concentration of economic power in the hands of a few. It has, however, made clear

that the industrial policy resolution 1956 will continue to govern the government policies for achieving the objective of growth, social justice and self-reliance in the industrial growth.

The public enterprises have come to cover quite a large part of the Indian economy and in this regard, the Industrial Policy 1956 has become the charter of its development. On December 23, 1977, the new Janta government also announced its industrial policy. According to new industrial policy, "There will be an expanding role for the public sector in several field, Not only will it be the producer of important and stretegic goods of basic nature, it will also be used effectively as establishing force for maintaining essential supplies for the consumers. The public sector will be charged with the responsibility of encouraging the development of wide range of ancillary industries and contribute to the growth of decentralised production by making available its expertise in technology and management to small scale and cottage industries sectors. It will also be the endeavour of government to operate public sector enterprises on profitable and efficient lines in order to ensure that investment in these industries pays and adequate return to society." [01]

On 23rd. Dec.1980, the Industrial policy of the "Janta Government" introduced some basic changes for the public sector. This policy recognised the forcing problems of

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01. The Economic Times. New Delhi Dec.24,1977, page 4.

unemployment and rural urban disparities. The objectives of this policy diverted towards removing the distortions of the past, so that the genuine aspiration of the people can be met within a time bound programme of economic development.

"On 23rd July 1980, a new industrial policy was announced by the Janta Government." This policy insisted not only to restore faith in the public sector but also evolve effective operational systems of management in the public sector. The public sector was entrusted with the task of raising the pillars of economic infrastructure in the country. This policy stressed on its contributions in terms of generating surpluses and employment for further growth of the economy need to be improved. The government has decided to lauch a drive to revive the efficiency of public sector undertakings. It also proposed to take effective steps on developing on managerial cadres in functional fields, such as operations, finance, marketing and information system." [01.]

Uttar pradesh happens to be one of the backward states of the country. At the time of independence the factory establishment and production were quite limited and low. The greater part of industrial activity was accounted for by small scale industries. The state participation in the industrial field was only limited to financial support to small scale industries and cottage industries. At that time the state was also backward from the point of provision of infrastructural facilities.

It was only under the planned development programme that government started taking active participation in the industrial

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01. - Government of India "Industrial Policy Statement dated 23rd July 1980. The Economic Times Vol.XII. No.120. page 4."

activities for the economic development of the state. During the last seventh five years plan period, efforts were directed towards improving infrastructural of state with a view to accelerate the pace of all arround economic growth in both the agricultural and industrial sphere.

The governmentof Uttar Pradesh has been persuing the policy of industrial development of the state within the overall industrial policy of the country. It is in accordance with this policy that several public enterprises have been set up by the Uttar Pradesh State Government.

Regarding private participation in the economic field, the government of Uttar Pradesh has adopted very constructive approach. The Uttar Pradesh State Government has established various financial and industrial development units in public sector only for development of private sector and private individual enterpreneurs. In this connection the document on fourth five years plan of the state clearly stated that "As far as the state government is concerned, besides establishing certain industries in the public sector, it will provide all reasonable facilities to the private sector to play its role in the economic development of the state"- [01].

The financial management is important for any business undertaking including of a public enterprises. However, it becomes all the more important especially in an under-developed economy like India, which is striving for rapid socio-economic transformation through a public sector. Notably, as a potent instrument, a well meaning financial appraisal not only helps

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01- Fourth Five Years Plan, Planning Deptt. Govt. of U.P.1969
Page-60.

largely in defecting goal-deviation of a business enterprise but also guides in ensuring effective and efficient utilization of available resources both physical and financial. Remarkably, financial appraisal is neither diagostic in nature nor therapeutic in practice. It is a means of making an appraisal of the various project and making a choice amongst them of the most feasible one in view of the required investment and expected return. Simply financial appraisal is a scientific evoluation of the profitability and financial strength of any business concern. In fact financial analysis is the process of making an anatomical study of the financial and operational data contained in the profit and loss account and the balancesheet of a given concern and thereby satisfying the information need of the internal and external users of such data. On the other hand financial appraisal in the process of scientifically making a proper and comparative evaluation of the profitability and financial health of the given concern on the basis of summarised and analysed data.

In general, every state enterprise has a governing board and executive management. As usual the governing board is responsible for taking decision on major policy issues related to the enterprise concerned and also for performance of overseeing function with a view to have sufficient and desirable control over it. The governing board also to see that the enterprise of the government is being operated in accordance with the plans, priority and policies of the government and they are being run in the larger public interest. It has to ensure that various resources of the enterprise are being used in most proper and effective manner in the interest of organisation and to achieve its basic objectives.

The executive management is supposed to implement the policies determined by the board and to run the organisation with maximum possible efficiency. At various levels, the executive manager performs various functions of management, such as- planning, organising coordinating, directing and control of business, as a whole within the scope of basic policies, operational policies and operational objectives of an organisation are also determined by them.

"The overall job of a executive manager is to create within the enterprise an environment which will facilitate the accomplishment of its objective. He will, of course, be also vitally affected by the external environment in which the firm must operate, but he will have little, if any power to influence government policy or economic, social conditions. Within the enterprise or his department, however, the manager is responsible for the environment in which his subordinates work. In cooperative enterprises-whether there be government, universities, churches, hospitals, or business firms- the able manager creates conditions conductive to effective work. In doing this the manager plans the operations of his subordinates, selects and trains them, organizes their role relationships, directs their work and evaluates the results." [01.]

Development of adequate transport facilities is highly essential for the growth of any economy. The Road Transport also plays an important role in this connection. The government of Uttar Pradesh has been alive to this fact and

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01.- O, Donell, Koontz, Principles of Management "An analysis of managerial functions". McGraw Hill, Publishing Co. P.46.

has been taking active interest in the development of road transport facilities in the state.

U.P.Government has set up state level public enterprises so far. Out of these U.P.State Road Transport Corporation is the second biggest in terms of employment and fifth in terms of investment.

Initially, the government established a departmental undertaking for the purpose in the name of U.P.State Roadways in May 1947. Later the government realised the difficulties and limitations of running it as a departmental undertaking and with a view to provide better, economical, more efficient and borad based services to the public, it had decided to convert it into a statutary corporation. Accordingly, the government set-up U.P.State Road Transport Corporation under the provision of the central Road Transport Corporation Act, 1950, with a view to provide adequate transport facilities, which is a pre-requisite for the growth of the economy to provide rail -road coordination, to provide and reinforce infra-structural facilities so as to achieve an all around development of the state. Its services have been getting popular and with the result it had to extended on all important routes of state, mostly running parallel to railways, even without the adequate support facilities.

Towards achievement of this objective the main functions of the coporation can be listed as under-

(i) to operate road transport services in the State and in any extended area.

(ii) to provide for any ancillary service required for the efficient functioning of the organisation.

(iii) to purchase vehicles of such type as may be suitable for use in the road transport services.

(iv) to provide facilities for the consignment of storage and delivery of goods.

(v) to train person in order to improve the skills, so that their officerp could be improved, render assistance to others for the provision of facilities for training, education and research.

(vi) to manufacture, purchase, maintain and repair rolling stocks vehicles, plants and equipments.

When it was running as a departmental undertaking, it was financed entirely by approptiations from the treasury and all or a major share of its revenues were paid into the treasury. Besides this enterprise is also subject to the budget, accounting and audit control applicable to other government activities. The total investment at that time when it was departmental undertaking was Rs.2292.93 lakhs.

On 1st May 1947, the total investment was Rs.210.58 Lakhs, which increased at the beginning of the first five year plan was Rs. 315.54 lakhs.

U.P.State Road Transport has been operating buses all over the state and being an essential services. It is highly desirable for it to provide prompt and efficient service to the people of the state. For the purpose only efficient management enable the U.P.State Road Transport Corporation to fulfil these requirements.

The overall management of the corporation has been entrusted to a board of directors. Its main functions are policy making giving direction for their execution and exercise sufficient control over the working of U.P.S.R.T.C. The overall control of the corporation has been vested in a board of directors constituted in accordance with the provision of Central Road Transport Corporation Act, 1950. The Act gives a great amount of latitude with regard to the constitution of board.

Scope of Study

The U.P.State Road Transport Corporation has a unique place in the economy of Uttar Pradesh and it is one of the most important State level public enterprise. It is second biggest of U.P.State enterprises in the terms of employment and fifth in terms of investment.

The operations of UPSRTC have been increasing substantially but it can not be taken to be a successful undertaking. Its operations have to be subject to severe critisism from time to time. Its management have been making efforts to improve its working and fulfil objectives with which it has been set up, but they have yet to show and prove their mettle in taking it out of red and provide quality services to the public of the state at large.

The study of this unit, has been undertaken mainly with a view to make in depth study of UPSRTC, to find out the actual position of its financial management.

Efforts have been made to study its efficiency, specially in financial area. Is its performance satisfactory in financial area or not? If not, what are the reasons for unsatisfactory performance? What has been the results?

What has been done further to bring necessary improvements?

The present study comprises of 7th. Chapters. An attempt has been made to study the place of U.P's contribution to economy of India, role of tfansport in development, role of road transport and UPSRTC in development of U.P. and India.

The historical position of state enterprises has been studied and then the growth of enterprises specially since independance. The growth of U.P.State Road Transport Corporation has been studied since independance, specially from 1972-73 when the corporation was formed.

The main aim of the study is to measure the financial management of UPSRTC specially from 1972, when it started operating as a corporation. An attempt has been made to understand the envolving pattern of managerial efficiency in the state Road Transport Corporation, mainly on the basis of critical analysis of all the aspects of road transport confilicts. The conflicts are relating to financial and non-financial both.

Methodology of study

The present work has been divided into 7 chapters. In the beginning of the first chapter the significance of the study has been discussed and brief outlines of financial management and growth, objectives and trends of public enterprises in state and form of management have been given, which naturally lead us to study the managerial aspects of public enterprises, with special reference to UPSRTC.

The second chapter which follows deals with the growth of public enterprises in Uttar Pradesh. The part of

study has been made with an object to construct the outline of UPSRTC in Uttar Pradesh.

The third chapter has been exclusively devoted to the study growth of U.P.State Road Transport Corporation since 1972 when it was formed, which one of the main fadtors of our study.

The fourth chapter of the study is related to governing board and management of UPSRTC.

The fifth chapter is devoted to long term financial management in UPSRTC has been analysed the long and short term financial management in UPSRTC.

The Sixth Chapter is related to working capital of UPSRTC.

A critical appraisal of financial performance of UPSRTC has been elaborated in detail in seventh chapter.

In the ends centain conclusion, observation and recommendation based on the analysis of the preceding chapter have been given. It has several valuable suggestions which must have definite bearing on the performance of U.P.State Road Transport Corporation.

The data of study have been drawn mainly from the secondary sources although primary datas also have been made use of whereever the secondary sources were not adequate. For the collection of primary data, field investigation was resorted to through the combined method of questionnaires and personal interviews.

In the present study, we have depended more upon the information compiled with the help of various annual reports of UPSRTC and personal visit to head office of UPSRTC, Lucknow many a times. Consultation with the Senior Officers

was made. Various five year Plans, and annual plans of U.P. also helped in our study. The reports of Comptroller and Auditor General on public enterprises also helped us to get necessary information regarding this study.

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CHAPTER II

GROWTH OF PUBLIC ENTERPRISES IN UTTAR PRADESH

CHAPTER II

Growth of Public Enterprises in Uttar Pradesh-

It has been verily said that Uttar Pradesh is the hear and soul of India. It occupies a central position in northern India. It lies between 23°,52' and 31°, 28' norther latitude and 77°,4' and 84°.38' eastern latitude. Its boundaries on the north, east, west and south have been defined by nature. In the north, the shiwalik ranges and the great Himalyan mountainous zone and in the south Vindhya ranges have demarkated its boundaries and it is surrounded by the states of Tibbat and Nepal in north, Madhya Pradesh in south, Punjab, Hariyana, Rajasthan, Delhin west and Bihar in east. It covers a large area, perhaps the biggest area compared to any of the states of India union, except Madhya Pradesh, Rajasthan and Maharashtra. It is fourth largest state of India. The total area of Uttar Pradesh stood at 2,94,411 sq. km. (11,3,656 sq. miles). From the population point of view, Uttar Pradesh is the biggest state in India. The total population of Uttar Pradesh was 11,08,62,013 according to census of 1981.

The entire region under review may be divided into separate regions, such as the hilly region of the north, the open plains of Ganga, Jamuna, the plateau region of south west and Bhawar and Tarai area. Though from the political view point the mountainous region seldom influenced in the course of history yet its economic importance can not be ignored altogether. The two great epics Mahabharat and Ramayan speak about the establishment of Aryan kingdom in Meerut and Ayodhya. Mahabharat describes the contest between Kourava and Pandvas.

The most important language of the state is Hindi, spoken by 84.67 % of population as its mother-tongue. The second most important language is urdu spoken by 10.70% of population. Six major communities live in the state namely-Hindu, Muslims, Sikhs, Jain, Chrisitian and Buddhists.

During the 19th century, the power of British gradullay extended towards West Bengal. In 1836, the possession of East India Company in the present of Uttar Pradesh and Delhi were combined under the name of north~~er~~-Western province. The remaining portion of Jalaun, Hamirpur and Jhansi were acquired later during 1840-53. Awadh, which had remained out till then, was annexed in 1856. In 1858, the whole of the north western Province, excluding the Delhi division, was formed into a single administrative territory and capital transferred from Agra to Allahabad. In 1877, the combined province was known as Norther-Western Provinces of Awadh. The name was changed in 1902 to the United Provinces of Agra and Awadh. In 1937, it was shortened to United Provinces and after few years, the capital was transferred from Allahabad to Lucknow. On January 12, 1950 its name was changed to Uttar Pradesh. At present it has 60 districts and 11 commissionaries. The total income of state as current prices came to Rs.6,880 crores in 1985-86 against the income of Rs.1490 crores in 1948-49. Uttar Pradesh has an unenvious position in the industrial map. Inspite of its large population and area, Uttar Pradesh ranks fifth amongst various states of the country regarding industrial units. In the small industries sector U.P. ranks third after Punjab, and Maharashtra.

The economic growth of the state has been slow, as a whole, there has been heavy reliance on private sector for

accelerating development of state. More than 75 % of population depend upon agriculture, which is wholly operated under private sector. The industries also were mainly developed by the private sector. Prior to attainment of indpendance of the country, its economic development was almost conspicuous by its absence due to colonial policy persued by the alien rule in the country.

Growth of public enterprises in India, took place only recently and development of industrial enterprises set up by state government of U.P. took place even more recently. The longest history of the state working in business is that of mining. Stone-quarries were worked departmentally in Mirzapur, Almora and in some place of Bundelkhand region. The stone quarries were under different departments at different times. In the initial stages, Directorate of Industries supervised the work but later, in 1910, public works department undertook the work of stone quarries and used the stone for construction for the public purpose. It was 1907, the government established a harness and saddlery factory at Kanpur., which was known as Counpora. Most of the products of the factory was utilised in the army. At the time of first world war in 1914-19 nearly 2,325 employees were working in that factory.

Another notable work of the state in this field was the establishment of opium factory at Gazipur. This factory processed all the opium leaves. The factory occupied an area of about 45 acres field and its main activity was to prepare opium for the Chinese market, where it was known as Banarasi opium. Opium was also supplied froim United Provinces for consumption purpose to many provinces like Punjab, Bengal Assam and Burma. The factory had been also producing Marphia and its salt and codia for medical purpose. During the busy season from April to June about 3500 persons were employed daily while at other times number of

persons were from 500 to 2000 per day.

In 1919, the government of Uttar Pradesh established two more factories known as Turpentine and Rosin factory, Saw mill and Tannery at Bareilly. But due to heavy losses incurred by them, the government transferred them to private sector. Therefore, the management of company was transferred by the U.P.Government to a syndicateof private entrepencurs, who subsequently by the managing agency of the company to M/s. J.P.Srivastava and Sons of Kanpur. They managed the affairs of the company till 1947, when the management was again taken over by the U.P.Government during 1947-48. The main objects and functions of the company are to manufacture and sale of Rosin and Turpentine and other by-products. The raw material used by the company are pine, resin supplied by the U.P.Forest department.

The government of Uttar Pradesh also initiated the commercial activities within the state in cottage industries and handicrafts. A plan to encourage the cottage woollen industries was established in 1935 when the government of India sanctioned Rs.18,500/- for improvement of designs in the production.[01]

With a view to provide reasonable price and marketing facilities to the artisans, government established United Provinces of Arts and Crafts Emporium in 1936. The performance and responsibility of emporium was quite satisfactory. The sales performance of Art and Craft Emproium

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01- "Administration Report of the department of Industries and Commerce, United Provinces- 1937-38. Page-16.

was Rs.216578 from 1936 to 1939. In 1939-40 Arts and Crafts Emporium was merged with the United Provinces Handloom Emporium. Prior to merger, these two emporiums were managed by department of Industries of Government. In the field of handloom, the government had set-up stores at Gorakhpur and Mahaher at Basti for trading activities in Cotton handloom. But later on, these stores were transferred to cooperative society, same steps were also taken in case of store at Sandila, Mau, Barabanki and Amroha (Moradabad). The main object of the merger of above two empooium was to create a centralised marketing organisation for the sale of goods manufactured by the artisians. The board had 35 agencies within and outside the province for the marketing purposes. Besides, marketing board had 14 manufacturing units at the following places-[01]

1. Amroha at Moradabad district
2. Etawah
3. Sandila
4. Barabanki
5. Gorakhpur
6. Maunath Bhanjan at Azamgarh district,
7. Khairabad at Sitapur district,
8. Mallawan at Hardoi district,
9. Kalyanpur at Kanpur district
10. Sikandrabad at Bundelkhand district,
11. Magaher atBasti district
12. Ichauli at Barabanki
13. Gazipur
14. Agra.

01- Administration Report of the department of Industries and Commerce United Provinces-1937-38. Page.35.

In the sphere of financing also, the government adopted positive approach in order to encourage the development of minor industries in the province by providing them with financial accommodation. A ∅ limited liability company known as the United Provinces Industrial financial Corporation Ltd., was established with an authorised capital Rs.50 lakhs in 1938. The registered office of the corporation was shifted from Lucknow to Kanpur in the month of March, 1940. A sum of Rs.18,823 was paid to the Corporation by the government in December 1939 on account of goods subsidy for the year 1938-39. During the first 17 months of its working, the corporation made a profit Rs.16,393. In the board of the corporation, there were 3 directors appointed by the U.P.Government. The main function of the Corporation was to provide loans at the moderate rate of interest. Subject to certain conditions the government had agreed to make annual payment to the corporation not exceeding Rs.1.5 lakhs per year.

Another development in this period was the nationalisation of passanger transport services by the U.P.Government in May 1947, with a view to provide economical and comfortable transport facilities and also to aid arround development in the state, under the Road Transport Corporation Act, 1950 passed by the Union Government. The U.P.State Road Transport Corporation was established on June 1, 1972 and U.P.Government Roadways was merged with this corporation. The head office of this corporation was established at Lucknow.

The government of Uttar Pradesh took more interest in the establishment of the business enterprises directly

only after the attainment of independance of the country.

The main objectives of these enterprises can be summarily enumerated as under:

(i) Development of basic infra-structure such as construction of roads and bridges, provision of electricity for the industries and irrigation for agriculture.

(ii) Exploitation of local fesources and entrepreneurship,

(iii) Promotion of balanced regional development.

(iv) Upliftment of weaker section of society like Harijans and Girijans,

(v) Provision of better amenities to the society in general in the form of adequate and efficient and economic road transport,

(vi) Setting up of manufacturing corporations to take over and reviving back to life the sick industrial units.

(vii) Improving the health of its citizens by the provision of safe potable water, whole some milk and other dairy products.

(viii) Provision of shelter to the needy

(ix) Protection of the agriculturists and the consumers from the exploitation of the middlemen.

Before the attainment of independance, there were only two State Government enterprises were run by U.P.State Government, in whic h the total investment

was Rs.221.76 lakhs. These two government enterprises were Indian Turpentine and Rosin company and U.P.Government Roadways. During 1947 to 1950 only one enterprise was added in total number of state government enterprises. This is the Central Dairy Farm, Aligarh, which was nationalised in Nov.1948 by the U.P.Government. This farm was established in 1899 by Edward Keventor. The main purpose of this farm was to produce standard quality dairy and piggery products as well as mutton. Another objective of this farm was to create a centre for training personels in various aspects of husbandry. At the end of 1949-50, the total investment in these three enterprises was Rs.296.19 lakhs.

Growth of State Enterprises Since 1950:

Public enterprises are largely a post indpendance phenomenon specially since 1950. Britishers, who ruled India for a very long period, established only few enterprises in public sector, only to rule the country affectively such enterprises included posts, telegraphs and ordinance factories. Railways during British period were started in the private sector. The issue of public use private sector gained significance after indpendance. The first industrial policy statement issued by the government of India in 1948, which was later amended in 1956. This modified resolution of 1956 reaffirmed that "all industries of basic and strategic importance or in the nature of public utility services would continue to be in the public sector. Industries, which are essential and require investment on a large scale which only the state in the present circumstances could provide would also be in the public sector." The need for creation of public enterprises was felt after attaining political indpendance in 1947. This was needed for greater production and proper distribution of wealth, which private sector failed to achieve during long life of its stay in almost in every sector of economic activity. The objective for creation of public enterprises was to provide a firm base of setting upcore industries like power, coal, steel fertilizers, atomic energy and machine building in public sector. During the last four decades the public sector has emrged as major sector in India's economic growth.

In a public sector undertaking objectives have to be seen in more than one dimension. Public enterprises like any other institution work for fulfilment of needs of certains groups of individuals who have direct or indirect interest in their welfare and growth important among them are government, parliament, share holders, creditors and customers, employees and public. Thus formulation of objectives is important to minimise problems.

For the achievement of above objectives and to solve the problems, during the four decades since independance, the growth of public sector enterprises in Uttar Pradesh has been enormous- both in terms of investment and scope of activity. During the period 1950 to 1960 the first important development was the establishment of government Precision Instrument Factory at Lucknow in 1950-51. It started with a capital investment of Rs.26.94 lakhs for the production of water meters, pressure gauges. But the factory did not earn any profit, later on recovered signifaicantly. In February 1975, the U.P.Government transferred the factory to U.P.Instrument Ltd. a joint sector project incorporated by the M/s. Scooters India Ltd. and U.P.State Industrial Development Corporation.

Another notable development of this period was the establishment of government cement factory at Churk in 1953-54. The total capacity of this factory was 4.80 lakhs tonnes cement production per annum. with a view to bring efficient management and boost the cement production U.P. Government established the U.P.State Cement Corporation on March 29, 1972 and it was transferred to the corporation with effect from April 1st. 1972.

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To give the financial help to the public enterprises in the state, U.P.Government established U.P.Financial Corporation on November 1954. The head office of this Corporation is situated at Kanpur. This Corporation has been helping to many industries in public sector as well as private sector both.

The U.P.State Warehousing Corporation established on March 19, 1958. The main objectives to establish this corporation are construction of warehouses, quality control and scientific stores etc. in the state. During this period, U.P.Small Scale Industries Corporation, a government company was established on June, 13, 1958. The main activities of this corporation are to develope and accelerate the development of small industries in State.

During this period a significant development was the establishment of U.P.State Electricity Board on April 1st. 1959, under the Electricity Act 1948. The main functions of the board are the estallation of power stations, generation and distribution of electricity in the public.

The following table gives the growth of the State Government Enterprises during 1950 to 1960.

STATEMENT SHOWING THE DEVELOPMENT OF STATE ENTERPRISES DURING 1950-1960.

TABLE NO. 2-1

S.No.	Name of Industries	Year	Total Investment (in lakhs)
1.	Government Precision Instrument Factory	1950-51	42.83
2.	Government Cement Factory	1953-54	348.62
3.	U.P.Financial Corporation	1954	187.02
4.	U.P.State Warehousing Corporation	1958	.15.00
5.	U.P.State Small Industries Corporation	1958	10.18
6.	U.P.State Electricity Board	1959	7,253.71
	TOTAL AMOUNT INVESTED		7,857.36

The above table shows the number of public enteprises

increased from three in 1948-50 to Nine upto 1950-60 and total investment increased from Rs.296.19 lakhs to Rs.7857.36 lakhs. In other words, at the end of 1959-60, the total number of State enterprises increased to 9 and total investment stood at Rs.8890.76 lakhs in comparison to Rs.296.19 lakhs in 1949-50. Thus, a net increase of Rs.7,594.57 lakhs took place during this period. Out of total investment Rs.8,890.76 lakhs, Rs.1363.22 lakhs were invested in four departmental undertakings, Rs.7455.73 lakhs in three Statutory Corporation and Rs.71.81 lakhs in two companies at the end of 1959-60.

On 20th. August, 1960, the state government of Uttar Pradesh had taken over a company of M/s.Vibhuti Glass Works. It was incorporated in 1940 as a public limited company at Ram Nagar, Varanasi. The agreegate of outstanding loans and interest due with company amounted to Rs.10.84 lakhs as on 20th.August, 1960, when the glass factory was taken over by the government on lease for a period of 20 years. According to the lease-deed executed between the owner of the company and government, the profit and loss is to be shared between two parties in equal portion on the expiry of lease period. The factory which is since then being run as a departmentally managed undertaking a government is engaged in making bottles on automatic machines.

The U.P. State Industrial Development Corporation was established on March 29, 1961 as a private company, registered under the Indian Companies Act, 1956. The company has a subsidary company also named M/s.Almora Magnesite Ltd. The Corporation rendered financial assistance by under-writing the issue of shares of public Limited Companies.

The U.P.Government Employees Welfare Corporation was established by the government under the Societies Registration Act,1860 on May 3rd. 1965. The main activities of this corporation is to promotethe welfare of State employees employed in the public enterprises.

On 20th. January 1966, the State Government of Uttar Pradesh has established U.P.Export Corporation as a government company. The Corporation has been coordinating the activities of the exporters with various export promotion councils. Besides this, the corporation undertakes the internal marketing of various products also. This Corporation also helps to the exporters to take interest in international markets.

The U.P.State Government established U.P.State Agro Industrial Corporation on March 29, 1967. This Corporation promotes the agro industrial development of the State. This corporation deals many activities in the field of agriculture and help the formers. The U.P.State Government established another cement factory, known as government cement factory at Dala. The main objective of the establishment of this factory was to increase the production of cement in the State.

The U.P.State Textile Corporation was established on Dec.2, 1969 for the production of yarn. The main objective of the corporation was to establish textiles Mills and undertakes their management. At the time of establishment the corporation had two subsidiary companies named as company No. 1 and No.2. There were 4 mills in company No.1, at Maunath Bhanjan (Azamgarh), Akbarpur (Faizabad), Barabanki and Raibareilly, and 4 mills in

company no.2 at Sandila, Rampur, Kashipur and Magaher (Basti). The head office ofthe corporation was established at Kanpur.

The period from 1970-1980 may be marked as an important era, as it witnessed a phenomenal growth of State Government enterprises in Uttar Pradesh. During this period, 46 public enterprises were established in diverse field. Three departmental undertakings viz- U.P.Government Roadways, CentralDairy Farm, Aligarh and Government Cement Factory (Churk and Dala) were merged with the newly established corporation named U.P.State Road Transport Cor orations U.P. Pasudhan Udyog Nigam and U.P.State Cement Corporation. The fourth departmental undertaking U.P.Government Precision Instrument Factory was transferred to U.P.Instruments Ltd; a joing sector project in 1974-75.

Over all picture of growth of such 61 public enterprises in Uttar Pradesh can be seen with help of the following table. The table shows the growth and total investment of these 061 public enterprises-

Table No.2-2

STATEMENT SHOWING GROWTH OF PUBLIC ENTERPRISES FROM 1950 to UPTO 1985-86

S.No.	Name of Enterprise	Year/Date of establishment	Form of Organisation	Developing Nature of Company	Rs.in Lakhs Total Investment
1.	2.	3.	4.	.5.	6.
1.	U.P.State Electricity Board	1.4.59	Company	Energy Enterprise	5,56,759
2.	U.P.Rajya Vidyut Utpadan Nigam	28.8.80	Company	Energy Production	46,515
3.	U.P.Alparthak Evam Laghu Jal Vidyut Nigam Ltd.	15.4.85	Company	-do-	10
4.	U.P.State Agro Industrial Corporation	29.3.67	Statutory Corpn.	Agro Development	734
5.	U.P.State Horticulture Produce, Marketing and Processing Corp. Ltd.	1.8.77	-do-	-do-	231
6.	Auto Tractors Ltd.	15.7.76	-do-	Agricultural Development	750
7.	U.P.State Cement Cop. Ltd.	29.3.72	Company	Manufacturing	6153
8.	U.P.State Sugar Corp. Ltd.	29.3.71	"	"	8500
9.	U.P.State Textile Corp. Ltd.	24.12.73	"	"	8884
10.	The Indian Turpentine & Rosin Co. Ltd.	1.4.78	"	"	22
11.	U.P.Agro Industries Ltd.	28.4.77	Statutory Corp.	Development of Business	17
12.	U.P.Development System Corp. Ltd.	15.3.77	-do-	Back-up to Govt.Departments	80
13.	U.P.Govt. Employees Welfare Corp.	3.5.65	-do-	Govt.Employees Welfare	18

Contd.

Table No.2-2 Contd.

888

1.	2.	3.	4.	5.	6.
14.	U.P.State Food and Essential Commodities Corp. Ltd.	22.10.74	Statutory Corpn.	Essential Goods & Commodity	50
15.	U.P.Jal Bigam	1975-76	"	Water Supply	NIL
16.	U.P.Nalkoop Nigam Ltd.	25.5.76	"	"	490
17.	U.P.State Road Transport Corp.	1.6.72	"	Transportation	10316
18.	U.P.Small Industries Corp.	13.6.58	"	Small Industries Development	380
19.	U.P.State Warehousing Corp.	19.3.58	"	Storage of Agriculutral commodities	497
20.	U.P.Financial Corp.	1.11.54	"	Financial Assistance	1000
21.	The Pradeshiya Industrial & Investment Corporation of U.P.Ltd. (PICUP)	29.3.72	Company	-do-	6150
22.	U.P.Panchayati Rajya Vitta Avam Vikas Nigam Ltd.	24.4.73	"	-do-	122
23.	Garhwal Mandal Vikas Nigam Ltd.	31.3.76	Statutory Corp.	Area Development	336
24.	Kumaon Mandal Vikas Nigam Ltd.	30.6.75	"	"	480
25.	Agra Mandal Vikas Nigam Ltd.	31.3.76	"	"	100
26.	Allahabad Mandal Vikas Nigam Ltd.	31.3.76	"	"	67

Contd.

1.	2.	3.	4.	5.	6.
27.	U.P.Bundelkhand Vikas Nigam Ltd.	30.3.71	Statutory Corp.	Area Development	113
28.	Gorakhpur Mandal Vikas Nigam Ltd.	31.3.76	"	"	126
29.	Lucknow " " " "	31.1.78	"	"	270
30.	Meerut " " " "	31.3.76	"	"	100
31.	Moradabad " " " "	30.3.77	"	"	25
32.	U.P.Pashchimi Kshetriya Vikas Nigam Ltd.	31.1.76	"	"	125
33.	U.P.Poorvanchal Vikas Nigam Ltd.	1971	"	"	111
34.	Varanasi Mandal Vikas Nigam Ltd.	31.3.76	"	"	70
35.	U.P.State Brassware Corp.Ltd.	12.2.74	"	Sectoral Development	350
36.	U.P.Bhumi Sudhar Nigam Ltd.	22.6.78	"	"	150
37.	U.P.Chalchitra Nigam Ltd.	22.9.75	"	"	638
38.	U.P.Electronics Corp. Ltd.	1976	"	"	3107
39.	U.P.Export Corp.Ltd.	20.1.66	"	"	299
40.	U.P.Forest Corp.	25.11.74	Company	"	NIL
41.	U.P.State Handloom Corp.Ltd.	9.1.73	"	"	1044
42.	U.P.State Leather Development and Marketing Corp. Ltd.	9.2.74	"	"	335
43.	U.P.State Miniral Development Corp.Ltd.	13.3.74	"	"	2727
44.	U.P.Matsya Vikas Nigam Ltd.	27.10.79	"	"	100
45.	Pashudhan Udyog Nigam Ltd.	11.4.75	"	"	80

Contd.

1.	2.	3.	4.	5.	6.
46. F	Prayag Chitrakoot Krishi Evam Godhan Vikas Nigam Ltd.	12.12.74	Company	Sectoral Development	50
47.	U.P.State Tourism Development Corp.Ltd.	5.8.74	"	"	450
48.	U.P.(Madhya) Ganga Beej Evam Vikas Nigam Ltd.	27.8.75	"	"	15
49.	U.P. (Pashchim) " " " " " "	27.8.75	"	"	19
50.	U.P.(Poorva) " " " " " "	27.8.75	"	"	17
51.	U.P.(Tarai) " " " " " "	27.8.757	"	"	25
52.	U.P.Anusuchit Jati Vitta Evam Vikas Nigam Ltd.	3/75	"	Minorties Development	1000
53.	Harijan Evam Nirbal Varg Avas Nigam Ltd.	25.6.76	"	"	15
54.	Tarai Anushuchit Janjati Vikas Nigam Ltd.	2.8.75	"	"	45
55.	U.P.Alp Sankhyak Vitta Evam Vikas Nigam Ltd.	7.11.84	"	"	55
56.	U.P.Waqt Vikas Nigam Ltd.	27.4.87	"	"	NA
57.	U.P.State Bridge Corp. Ltd.	18.10.72	"	Constructional	150
58.	U.P.Rajkiya Nirman Nigam Ltd.	1.5.75	"	PWD	100
59.	U.P.Housing & Development Board	1.4.66	"	Housing	460
60	U.P.State Industrial Development Cop.Ltd.	31.3.61	"	Industries	2142
61.	U.P.Police Avas Nigam Ltd.	27.3.87	"	Housing	100
			Total		6,63,074 lakh

Source: A Hand Book Public Sector Enterprises
Sarvajanik Uddyam Bureau, Lucknow

The above table No.2-2 shows, the total investment in 61 enterprises (including six enterprises established in 1976-77 and M/s.Bibhuti Glass Works Varanasi) was Rs.5,63,074 lakhs at the end of 31st.March 1987.

The above table also shows that Energy is an important sector within State enterprises, occupying the manjor chunk of states resources. In addition to the State Electricity Board UP Rajya Vidyut Utpadan Nigam has been set up which is at present implementing the Unchahar Thermal Power Project. To [illegible] and implement the mini and micro hydel projects in [illegible] and hills areas, a separate company has been set [illegible]. This company is presently implementing three mini hydel projects and is undertaking studies and survey etc. for 19 other projects.

558730

Major enterprises under manufacturing group or Cement, Sugar ,Textile and Auto-Tractors, while cement units were set up to utilise the lime stone deposits available in Mirzapur District, Sugar Units are the result of take over of sick sugar units from private sector in 1971, specially to look after the interest of cane growers, efforts could be made for their rehabilitation, modernisation and expansion, as the units were quite old, with absolete thechnology and nonviable capacity. Textile corporation was set up to provide cotton yarn to the handloom weavers scattered over the state as the entire yarn requirement of U.P. was being met by the units outside the state. The corporation has set up 13 spinning Mills with one 5 lac spindles to fetch not only the needs of the state but has also been progressively exporting its yarn to foreign countries and earning foreign money. The Corporation has very good monitoring [illegible] is successfully [illegible] with the private sector units.

A Tractor Unit,Auto Tractors Ltd. was set up at Pratapgarh in the backward area of the state to accelerate the development of agriculture. The unit has had its own troubles since inception and is running under ad weakness.

In the service sector there are 8 enterprises, like UPSRTC, Jal Nigam, Warehousing Corporation etc. All these enterprises are public utilities providing essential and basic amenities to the citizen of the State. These enterprises account for more than 25% of the total employment in State enterprises.

There are 3 ente prises in the Financial and Promotional category, namely, UPFC, PICUP and Panchayati Rajya Vitta Nigam. The first two are engaged in providing financial assistance in the industrial development of the state and have done exceedingly well and remained as top performance. Their good performance over a period of time will place the state on the industrial map of the country. Panchayati Raj Vitta Nigam provides assistance to Panchayati Raj institutions and contributes to the development of small scale rural industries.

17 Setoral Development Corporations have been set up to cater to the specific needs of the different sectors of the industry in the State with emphasis on value added. Enterprises in fields,like Brassware, leather and Handloom have helped to small and poor artisans which were being exploited by the prevalent trade practices through imparting training, providing raw materials and marketing their produce.

U.P. Electronics Corporation has been set up for the development of the electronics industry. It is not only competing with other electronics units in the country specially in consumer electronics and computer hardware but also has been working as a development agency in this vital sunrise industry. It has been able to attract and establish a number of electronic component industries, which will go a long way in the overall development of the state. Similarly for exploitation of mineral resources of the state and developing fisheries, tourism, forest, weath, separate corporations have been set-up. Chalchitra Nigam owns the largest chain of Cinema halls in the country and is an effort to reach the rural massege and provide them recreational facilities. It has, however, been recently closed down. To assist the cane growers four Corporations have been established on area basis to provide financial assistance for procurement of seed fertilizer and pesticides etc.

Divisional Development Corporations, were set up in each revenue division to concentrate on the development of the revenue divisions through setting up of units based on available raw materials and to assists the local talents in setting up small scale units.

For the development of Economically Weaker Sections, i.e. the scheduled Castes and Scheduled Tribes and minorities, 5 Corporations have been set-up, to provide specific schemes for their upliftment specially in the area of the finance and housing, imparting training etc.

There are five enterprises under the construction Sector. Two construction corporation which are off-shoot of the state, Public Works Department have been set up to develop competitive strength, not only in the works of the state but also to undertake jobs outside as contractor. These corporation, i.e., Bridge Corporation, Nirman Nigam have developed by not only completing the works assigned by the state in time as far as possible but have also been able to secure contract works too.

Besides, local development authorities in major towns, the U.P.Housing and development Board has been continuously endevouring since 1966 towards solving the housing problems of urban population in the State. The U.P. Police Awas Nigam has been set up recently specially to construct houses for Police personnel and department in a time bound framework. An other enterprise UPSIDC is already engaged in providing developed plots and sheds for industrial purposes.

The summerised position of Public Enterprise of the state is as under. The following table shows the form of organisation of the U.P.State government enterprises.

TABLE No. 2-3

STATEMENT SHOWING THE FORM OF ORGANISATION OF UPS PEs

Statutory Corporation		Company		
1. Service Enterprises	5	1. Manufacturing Enterprises		8
2. Financial Enterprises	2	2. Service	"	3
3. Sectoral Enterprises	3	3. Financial	"	2
4. Housing development enterprises	1	4. Sectoral	"	14
		5. Divisional Development		13
		6. Weaker Section		[illegible]
		7. Others		[illegible]
	11			50

Total (11+50)= 61 on at 31 March 1987
Source:- Based on forgoing table No.2-2

The above table shows that out of sixty one enterprises 11, enterprises have been established as statutory corporation and 50 enterprises in the form of company.

The next table shows the classification of Enterprises according to year of establishment:

TABLE No. 2-4

STATEMENT SHOWING THE YEAR-WISE GROWTH OF PEs IN THE STATE

Year	No. of Enterprises
Upto 1967	10
1967-1972	7
1972-1977	36
1977-1982	4
1982 and after	4
	61

Source- Compiled from 'A Handbook of Public Sector enterprises in State'. Eddition 1988- Page (V)

The above table shows that the period of 1972-1977 may be marked as a period of phenomenal growth of Public enterprises in the state. 36 public enteprises were established in the period from 1972-1977 while 25 public enterprises were established in other period. From 31st March, 1982, only 4 PEs were established in the state.

The next table shows the investment on the basis of nature of working of state Government Enterprises with total investment:

TABLE No. 2-5

Rs.in crores

S.No.	Nature of Enterprises	No.	Total investment
1.	Energy	3	5,607
2.	Manufacturing	8	340
3.	Service	8	202
4.	Financial assistance	3	274
5.	Sectoral Development	17	60
6.	Area Development	12	18
7.	Minorities on weaker sectors	5	9
8.	Construction	5	121
	Total	61	6,631

Source: Compiled with the help of 'A Hand Book of Public Enterprises of U.P.

The above table no. 2-5 shows that the total investment of these 61 public enterprises were near about Rs.6,631 crores at the end of March 1987. A major investment at the end of 1982 was in energy. Energy sector has lion's share of near about 80% of total state government investment Manufacturing and service enterprises account for 7.85% and 4.8% respectively. Remaining 7.35% has been invested in the remaining 42 enterprises.

An analysis of employment position in these enterprises reveals at the end of year 1972-73 was about 1,11 lakhs employees, which increased to 1.52 lakhs at the of 1975-76. During the year 1984-85 about 2.08 lakhs persons directly employed in these undert kings. 75% of total employees were employed in two largest enterprises viz. U.P.State Electricity Board and UPSRTC.

The consolidate position of the growth of investment and employment can be seen from the following table:

TABLE NO. 2-6

(Rs. in lakhs)

Year	No. of Enterprises	Total investment	Total Employment
Before 1950	5	2.96	NA
1951-1960	9	88.91	-
1961-1970	11	583.84	-
1971-1975	37	1230.00	-
1977-1978	42	1925.00	-
1978-1979	50	2115.00	152320
1979-1980	55	3198.08	196066
1981-82 ∅	52	4219.79	199884
1982-1984	57	4280.13	207925
1984-1986	58	5698.15	208842
1986-1987	61	6631.00	238576

Source: Various reports on Public Enterprises of U.P. from Bureau of State Enterprises. Jawahar Bhawan, Lucknow.

The above table shows the total employment as on 31.3.1987 was approximately 2.4 lakhs of this more than 40% was accounted for by energy sector enterprises, wh''e service sector enterprises share was 26.3% and of ma' uring enterprises accounting for another 21.8%. About 0 persons were employed by the subsidiaries of t'

Instead of Judging the performance enterprises only on the basis of profits

CHAPTER III

GROWTH OF U.P.STATE ROAD TRANSPORT CORPORATION

GROWTH OF U.P.STATE ROAD TRANSPORT CORPORATION:

Introduction-

From earliest time "there is record of road and wheeled vehicles in India. Good roads, easy communications necessorily go with civilization and civilized administration, and the Indian civilization goes back not less than five thousand years".[1]

The ancient literature of India is full of reference to the existence of good roads. The most ancient literature 'Rigveda' contains the description of 'Mahapath', the roads. The excavations at Mohan Jodero in Sindh and Harappa in Punjab reveal that these cities, which existed in 3500 and 2500 B.C., had broad streets with a good system of drainage on both the sides. One doubled wheeled chariot toy has also been found in the excavations of Harappa. Buddha literature is full of road descriptions. Kautilya's Arthsastra vividly describes the roads and their administration during Maurya's period. During the time of Chandragupta Maurya there was a transport department to look after the maintenance of roads. During the period of Muslim, Mohammad Tuglaque got constructed a trunk road from Delhi to Daulatabad. Shershah Suri is popularly known as a great road builder in Indian history.

It was with the establishment of the British rule in India that the pace of development of roads was accelerated. In this period also the roads were mainly constructed with the strategic and administrative point of view. Lord Willian

1- Road Development Co mittee Report 1927, Page-4.

Bentinck and Lord Dalhousie took interest in construction of roads by connecting Peshawar, Delhi and Calcutta by extending G.T.Road by 420.4 km. in 1948.

After indpendence, road development has been considered an integral part of our planned development. On the eve of first plan, it was admitted that the road system of the country was a short of requirements, keeping in view the large area and population. The plan visulised a balanced development of all kinds of roads. The priorities for national high ways were fixed by the Central Government and for the state, districts or other roads by the individual states in accodance with their own requirements.

As compared to other countries, the motor transport in India is of recent origin. The first Motor vehicle was imported in 1898. But the development till the first World War remained very slow. As a public carrier its use was very limited. There were only 4,000 vehicles in 1913. Poor road condition was one of the important factors responsible for its slow progress. The total number of motor vehicles on the road at the beginning of first five year plan was 2,94,727 which rose to about 4,18,000 at the end of the plan. But this increase was considered very small in view of the size of the country and its population. It was expected that the motor transport would rise very rapidly due to general growth of economy. In order to review the problems of road transport development, the Planning Commission formed a special study group. The Planning Commission further recommended liberalisation of terms of permits to the private operators. A provision of Rs.89 crores was made in the fourth plan for augmenting the services of the nationalised

transport undertakings in the states. In addition, the Railways had contributed Rs.10 crores to the capital of road transport undertaking.

Growth of U.P.State Road Transport Corporation:

U.P.Government has set up 58 state level public enterprises upto 1988. Out of these UPSRTC is the second bigg-est in terms of employment and fifth in terms of investment. The road transport plays an important role in faster economic development of any area. Keeping this in view, U.P.Government has been taking active and keen interest in the development of Road Transport facilities in the state. The U.P.Government established a departmental undertaking for the purpose in the name of "U.P.Government Roadways". The operation of the state Road Transport passengers Bus Services was started on 15th. May 1947 on Lucknow-Barabanki Road, to promote Rail Road Coordination and balanced development of various modes of transportation. The service grew popular and had to be extended on all important routes of state mostly running parallel to Railways. This programme was included in the State Sector during the first five year plan of the state and was retained as a plan programme upto the second year of the second five year plan of the state.

The government of Uttar Pradesh realised the difficulties and limitations of running it as a departmental undertaking. For this reason and with a view to provide better economical and broad-based services to the public, the government decided to convert the departmental undertaking to a statutory corporation.

Accordingly, the U.P.S.R.T.C. was set up on June 1st, 1972 as a statutory corporation under Road Transport Act, 1950 with a view to provide adequate transport facilities and balanced development of various modes of transportation. Its services have been getting popular and with the result it had to be extended on all important routes of state mostly running parallel to railways, even without the adequate support facilities. The head office of this corporation is situated at Lucknow.

The main purpose for which corporation has been set up is to promote the provision of an efficient, adequate, economical tfansport services in the state. The main objective of the corporation was as under:

(i) to operate road transport service in the state and in any extended area;

(ii) to provide for any ancillary service required for the efficient functioning of the organisation;

(iii) to purchase vehicle of such type as may be suitable for use in the road transport services;

(iv) to provide facilities for the consignment, storage and delivery of goods;

(v) to train persons in order to improve their skill add thereby their efficiency, render assistance to other for the provision of facilities for training, education and research; and

(vi) to manufacture, purchase, maintain and repair rolling stocks, vehicle appliances, plant and equipment, etc.

When it was run as a departmental undertaking it was financed entirely by the appropriation from the treasury and all or a major part of its revenues were paid into the treeasury. Besides this enterprise was also subject to budget, accounting and audit controls applicable to other government activities. The total investment and net-profit at that time when it was departmental undertaking, has been analys d in the table no.3-1:

TABLE No. 3-1

STATEMENT SHOWING THE INVESTMENT AND NET-PROFIT IN U.P.GOVERNMENT ROADWAYS.

(Rs. in lakhs)

Year	Capital invested	Net-profit
1949-50	285.16	-
1950-51	315.54	20.18
1951-52	347.57	12.58
1952-53	372.59	5.73
1953-54	389.50	19.51
1954-55	430.19	33.06
1955-56	445.94	52.33
1956-57	540.09	77.87
1957-58	615.99	117.24
1958-59	824.52	148.03
1959-60	953.45	203.18
1960-61	1105.30	214.70
1961-62	1307.32	213.60
1962-63	1489.25	211.66
1963-64	1660.18	186.39
1964-65	1690.71	175.30
1965-66	1737.46	215.44
1966-67	1784.73	3.86
1967-68	1805.77	151.09
1968-69	1841.18	255.38
1969-70	1984.50	196.86
1970-71	2108.25	240.38

It may be seen from the table No.3-1 that the total investment in the Government Roadways had been continuously increasing. For the year ended 1950, the total investment was Rs.285.16 lakhs, which increased to Rs.315.54 lakhs in 1950-51, with a net profit Rs.20.19 lakhs. The percentage of net profit on total investment in this period was 6.39%.

At the end of first five year plan (1955-56) the total investment increased to Rs.446.94 lakhs and net-profit Rs.12.58 lakhs. Thus, in 1955-56, a net increase of Rs.131.40 lakhs over the 1950-51.

It again increased at the end of second five year plan (1960-61) to Rs.1105.30 lakhs and net profit increased Rs.659.36 lakhs over the first five year plan. In 1960-61 the percentage of net profit Rs.214.70 lakhs to capital invested (Rs.1105.30 lakhs) is 19.42 %.

In the third plan the total investment increased to Rs.1737.46 lakhs in 1965-66 in comparision to Rs.1105.30 lakhs in second plan. Hence, there was a net increase of Rs.632.16 lakhs over 1960-61. In 1965-66 the net profit was Rs.215.44 lakhs. Rs.1784.73 lakhs in 1966-67, Rs.1805.77 lakhs in 1967-68 and Rs.1841.18 lakhs in 1968-69 are invested in three annual plan respedtively. During the fourth five year plan, the State Government took more interest in it and provided more amount for the transport development. In the beginning of fourth five year plan, the total investment was Rs.1984.50 lakhs, which increased to Rs.2108.25 lakhs in 1970-71, a net increase of Rs.23.75 lakhs. It again increased to Rs.2,292.93 lakhs in 1971-72, an increase of Rs.184.68 lakhs over 1970-71.

The percentage of net-profit to capital invested was 9.24% in 1969-70 and 10.86% in 1970-71. During 1971-72 the undertaking earned a net profit of Rs.248.12 lakhs, which was 10.70% of capital invested (amounted to Rs.2292.93). There was no any capital invested in first two months of 1972-73. The net profit of two months viz-April and May 1972 was Rs.65.27 lakhs.

In 1972, the U.P.Government converted the Roadways in form of corporation named U.P.State Road Transport Corporation. The U.P.Government had placed at the disposal of the corpoation Rs. 12 crores as equity capital and Rs.18 crores as loan. In 1972-73, the state government advanced a further loan to Rs. One Crore as loan beginning the total amount to Rs.19 Crore. In 1972-73, State Bank of India provided loan amounted Rs.50 lakhs. The total investment and net profit after establishment of Corporation has been analysed through table no. 3-2 as on next page:

Contd.

TABLE No. 3-2

STATEMENT SHOWING THE RETURN AND INVESTMENT IN U.P. STATE ROAD TRANSPORT CORPORATION.

(Rs. in Crores)

Year	Capital invested (Excluding Central Workshop).	Net Profit	% of Profit on capital (Before Taxation)
1972-73 (June-March)	25.97	(-) 0.99	1.50 %
1973-74	28.02	0.05	6.61
1974-75	30.05	(-) 2.51	(-) 2.62
1975-76	35.43	0.81	8.16
1976-77	43.55	1.21	8.61
1977-78	42.35	(-) 0.36	5.99
1978-79	49.77	(-) 2.48	3.27
1979-80	59.99	(-) 3.28	1.12
1980-81	75.28	(-) 18.27	(-) 17.16
1981-82	85.43	(-) 12.90	(-) 6.83
1982-83	92.23	(-) 21.52	(-) 14.82
1983-84	107.11	(-) 16.64	(-) 7.41
1984-85	132.05	(-) 22.39	(-) 6.39
1985-86	163.55	(-) 17.53	(-) 1.74
1986-87	204.99	2.52	7.54
1987-88 (April-to Dec.87)	225.81	3.91	7.58

Source: Annual Report of UPSRTC 1987-88

Note: The data after 1979-80 are not certified by A.G.U.P.

It may be seen from the above table No. 3-2 that the total investment in UPSRTC had been continuously increased except in 1977-78. The total investment in 1972-73 was Rs.25.97 crores, which increased in 1973-74 to Rs.30.05 in 1974-75, a net increasing of Rs.4.08 crores. In year 1979-80, the total investment was Rs.59.99 crores against Rs.85.43 crores in 1981-82 and Rs.92.23 crores in 1982-83. Rs.107.11 Cr. invested in year 1983-84, while it increased upto Rs.132.05 Crs in 1984-85, Rs.163.55 Cr. in 1985-86, Rs.204.99 Cr in 1986-87. Only in 9 months of year 1987, the capital investment increased Rs.225.81 Cr.

If we analyse the table No.3-1 and 3-2, we find that as a departemental undertaking upto May 1972, the U.P.Government Roadways earned profit, but after converted into a Corporation, heavy loss incurred. During 1976-77, a profit of Rs.1.21 crores earned by the Corporation, while after 1976-77 the loss in UPSRTC had been continuously increasing except during the year 1983-84 and 1984-85. But after the year 1985-86, the corporation earned nominal profit, which was Rs.7.54 Cr. in 1986-87 and Rs.7.58 Cr. in 1987-88.

As a corporation it had to pay income tax on net profit, payment of fees, Sales Tax, which was not acquired to be paid by it as departmental undertaking. Although private owners already paid these charges and fees yet they earned profit. Its reason was mis-management of Corporation in comparison of private owners.

Although the Corporation had incurred heavy-losses yet overall position regarding the routes and its total distances have been increasing continuously.

The growth of UPSRTC has been quite spectacular, judged from the point of number of routes and distances in the first decade of its existance - (1972-82). The number of routes increased from 1,111 in 1973 to 1972 in 1982. However, it declined in 1983 and remained almost stagnant in 1983-84. The distance of routes increased from about 145 thousand kms. to about 288 kms. in 1981, or it almost twice during this period. This also declined during 1982-83, 1983-84, and 1984-85. But it again increased 1985-86 and 1986-87. The total distances and number of routes under the operation of U.P.State Road Transport Corporation has been analysed in the table no.3-3 on next page:

Contd.

TABLE No.3-3

STATEMENT SHOWING THE ROUTES AND THEIR TOTAL DISTANCES

Year	No. of Routes	% increase/ decrease over the previous year.	Distances of Routes (Kms.)	% increase/ decrease over Previous year.	Mean distances Km.
31.3.1973	1111	-	1,44,974	-	130
31.3.74	1208	8.8	1,43,492	(-) 1.0	119
31.3.75	1256	4.0	1,62,826	13.47	130
31.3.76	1310	4.3	1,66,462	2.2	127
31.3.77	1417	8.2	1,83,240	10.0	129
31.3.78	1455	2.7	1,84,263	0.6	127
31.3.79	1652	13.5	2,17,806	18.2	132
31.3.80	1782	7.8	2,63,178	21.0	148
31.3.81	1945	9.1	2,87,748	9.3	148
31.3.82	1972	1.4	2,84,862	(-) 1.0	144
31.3.83	1843	(-) 6.5	2,73,442	(-) 4.0	148
31.3.84	1828	(-) 0.9	2,76,365	1.1	151
31.3.85	1818	(-) 1.8	2,69,626	(-) 4.8	148
31.3.86	1828	0.6	2,73,146	1.3	149
31.3.87	2108	15.3	3,12,117	16.1.	150
31.12.87	2159	2.4	3,61,150	13.9	167

Source: Annual Report of UPSRTC 1987-88

On the analysis of the table No.3-3 on pre-page we find that number of routes and their distances have been increasing except 1983-84 and 1984-85. At March 1973 the total number of routes was 1,111 with a total distance of 1,44,974 Kms. It increased to 1208 routes with 1,43,492 Kms. distance at 31st.March 1974, and number of routes increased from 1208 to 1256, which was 4% on previous year 1974.

During the period from 1975-80 development of nationalised transport services accelerated in the state considerably. In 1975-76, the total number of routes was 1310 with a distance of 1,66,462 Kms, which increased to 1782 routes with distance of 2,63,178 km. in 1979-80. In comparision of 1974-75, the mean distance of routes also improved from 130 in 1974-75 to 148 in 1979-80.

Upto 31st.March,1981, the total no. of routes was 1945 with total distance of 2,87,748 kms, which decreased upto 1818 routes with 2,69,626 kms. in 1985. From 1985-86, the number of routes remain increased, it was 2108 in 1986-87 and 2159 routes upto Dec.1987, while the distance of routes was 3,17,117 kms. in 1986-87. During this period the situation remained satisfactory regarding the development of nationalised transport services.

Today, UPSRTC is playing its fleet of buses on all important routes of the state, trying to penetrate remote rural areas, whereever it is possible. It had a fleet of 7,151 buses, 152 trucks and 67 taxies as on 31 Dec.1987. However, it has been able to operate itsfleet of buses only on about 30 percent of the total road length of the State. Whereas, Maharashtra and Gujarat State have already achieved the objective of complete nationalisation, the UPSRTC would take still sometime to achieve it.

The progress regarding fleet composition of UPSRTC has been shown in the Table No.3-4 on next page.

TABLE NO.3-4

STATEMENT SHOWING THE OPERATING FLEET OF UPSRTC:

Year	Buses	Trucks	Taxies
31 March, 1972	4253	410	95
31 March, 1973	4582	351	65
31 March, 1974	4745	336	53
31 March, 1975	4851	244	51
31 March, 1976	4958	183	41
31 March, 1977	5713	179	54
31 March, 1978	5376	163	50
31 March, 1979	5645	170	55
31 March, 1980	5679	156	50
31 Msrch, 1981	5853	147	33
31 March, 1982	5996	152	48
31 March, 1983	5826	151	68
31 March, 1984	6052	153	55
31 March, 1985	6198	151	59
31 March, 1986	6288	160	56
31 March, 1987	6679	147	77
31 Dec, 1987	7151	152	67

Source: Annual Report of U.P.State Road Transport Corporation, Year 1987-88

It may be seen from the table No.3-4 that number of buses in the fleet of UPSRTC has been increasing continuously. There were 4253 buses in the year 1972, which increased to 4851 buses in the year 1975, a net increase of 598 buses during four years. It again increase to 5713 buses at the end of 31st March, 1977, a net increase of 862 buses in only two years. But it decrease in the year 1978 in comparison of year 1977, there were only 5376 buses in fleet in the year 1978. But at the end of year 1980, it again increased, a net increase to 303 buses in two years.

During the sixth plan period the total number of buses increased to 6198, a net increase of 1519 buses at the period 1.4.1980 to 31.3.1985. Upto December 1987 the total number of buses increased to 7151.

There were 410 trucks in the year 1971-72, which has been decreasing upto the end of 31st March, 1975 by 166 Trucks. There were total number of trucks with UPSRTC was 179 at the end of 31 March, 1977, which remain decreased to 170 trucks at the end of year 1979, a net decrease of nine trucks. The table shows a downward trend from 31 March 1972 to 31 Dec 1987, the total number of trucks was 152 at the end of 31st Dec.1987.

There were 95 taxies in the fleet of UPSRTC in 1971-72, which decreased to 65 taxies in 1972-73. There were only 50 taxes in the year 1977-78, while it increased to 55 taxies in 1978-79, showing an upward and downward trend within the period, there were only 33 taxies in year 1980-81 in fleet of UPSRTC. It again increased to 77 taxes in 1986-87. At the date of 31st Dec.1987, the total taxies in the fleet of UPSRTC were 67 only. It is notable that UPSRTC has been utilising the trucks and taxies only for the official purpose.

The growth of UPSRTC from the point of kilometerage and travelled passengers has been satisfactory as total no. of passengers travelled about 32 crores as on 31 Dec.1987. The overall position regarding kilometerage and travelled passengers has been analysed in following table No.3-5.

TABLE No.3.5

STATEMENT SHOWING KILOMETERAGE AND TRAVELLED PASSENGERS:

(In Crores)

Year	Kilometerage earned by buses	No. of Travelled passengers.
31 March, 1972	22.86	25.13
31 March, 1973	23.24	23.82
31 March, 1974	24.77	27.96
31 March 1975	26.06	30.55
31 March, 1976	27.60	32.00
31 March, 1977	30.68	35.03
31 March, 1978	31.85	35.76
31 March, 1979	34.34	39.48
31 March, 1980	39.62	44.91
31 March, 1981	42.15	46.10
31 March, 1982	39.30	41.47
31 March, 1983	37.39	36.51
31 March, 1984	40.33	36.80
31 March, 1985	42.56	35.25
31 March, 1986	44.22	38.85
31 March, 1987	47.47	42.75
31 Dec.1987	40.56	32.25

Source: Annual Report of UPSRTC 1987-88

It may be seen from the table No.3-5 that kilometerage earned by buses and number of travelled passengers both have been continuously increasing upto 31 March, 1981, while kilometerage earned by buses decreased in 1981-82 and 1982-83 against previous year. But after 1983-84, it increased continuously in both the areas, kilometerage earned by buses and number of travelled passengers. In the year 1984-85, the total kilometerage earned by bus were 42.56 cr. Kms. with total number of travelled passengers 35.25 cror s. At the date of December 1987 the total kilometerage earned by buses were 40.56 Cr. Kms. and number of passengers travelled by busines were 32.25 Crores. If we see in a glance the progress of UPSRTC has not been quite satisfactory from the point of kilometerage earned by buses and no. of travelled passengers. The position in fact, has been worse during 1981-82 and 1982-83. But thereafter, there is slight improvement in the year 1984-85 to 1986-87.

The growth of UPSRTC from the point of city bus service has not been satisfactory as total no. of passengers travelled. Although UPSRTC has been operating city bus services in only 6 Big cities of the state, viz, Agra, Allahabad, Dehradun, Kanpur, Lucknow and Varanasi, yet the earning of city buses are lower in comparison of Depot Bus services. The overall position has been indicated about city buses in the table No.3-6 on next page:

TABLE NO. 3-6

STATEMENT SHOWING THE NUMBER OF ROUTES AND PASSENGERS TRAVELLED UNDER CITY BUS SERVICE.

S.No.	Particulars	Total
1.	No. of Routes	122
2.	Day-wise total number of buses operated	354
3.	No. of passengers travelled (in lakhs)	
	1971-72	595.68
	1972-73	596.72
	1973-74	668.23
	1974-75	714.26
	1975-76	824.62
	1976-77	941.65
	1977-78	918.47
	1978-79	926.85
	1979-80	967.86
	1980-81	880.50
	1981-82	726.92
	1982-83	727.51
	1983-84	524.54
	1984-85	422.78
	1985-86	520.37
	1986-87	592.11
	1987-88 (April to Dec.87)	420.94

Source: Annual Report of UPSRTC-1987-88

It may be seen from table No.3-6 that the total number of passengers travelled by city buses in 1971-72, were 595.68 lakhs, which has been continuously increasing upto 967.86 lakhs in 1979-80, a net increase of 372.18 lakhs passengers within nine years. But after year 1979-80, a net increase of 372.18 lakhs passengers within nine years. But after year 1979-80, the table shows a decreasing trend upto 1985-86. In 1982-83 total number of passengers travelled by City busines were 727.51 lakhs, which decreased by 363.20 lakhs. But it again increased in year 1986-87 and 1987-88. The total number of passengers travelled by 592.11 lakhs in 1986-87. It is, therefore, clear that the growth of UPSRTC from the point of city bus service has not been satisfactory. Its reason is mostly all the cities need more city transport services, but U.P.State Road Transport Corporation isunable to provide more buses for the increasing demand of transportation.

The number of persons employed in UPSRTC has increased considerably. The overall position regarding employment has been shown in table no-3-7 given on next page.

TABLE NO.3-7

STATEMENT SHOWING EMPLOYMENT STRUCTURE OF UPSRTC

Year	No. of persons employed			Total
	Admin Branch	Traffic Branch	Engg.Branch	
1972-73	2280	20812	7806	30,898
1974-75	2218	23578	9,561	35,357
1976-77	3000	24000	11,000	38,000
1977-78	2835	24454	11,957	39,246
1978-79	3204	24220	13,759	41,183
1979-80	3364	26271	12,628	42,263
1981-82	2995	29595	14,304	46,895
1983-84	3420	32449	13,099	49,679
1984-85	3123	32547	12,553	48,223
1985-86	3048	32738	13778	49,564
1986-87	3474	33021	15,307	51,802

Source: Compiled with the help of various annual reports of UPSRTC.

The growth of UPSRTC from the point of employment has been satisfactory as it is clear from table No.3-7. It may be seen from table No.3-7 that the total employment provided by UPSRTC has been continuously increasing. The total number of persons employed in the year 1972-73, were 30,898, while it increased in 1974-75 upto 35357, a net increase of 4459 persons within two years and percentage increase was 111.2 % in comparison to 1972-73. It further increased to 38,000 in 1976-77 and 39246 to 1977-78. During 1981-82, the total number of persons employed in UPSRTC were 46,895 persons, in which, 2,995 related with administrative branch, 29,595 with traffic and 14,305 with Engineering branch. The traffic branch has the larger portion of employees (52% of total employees in 1972-73 and 60% in 1985-86). 1017 persons were employed as daily wages and casual basis, they were 2% of the total. The employees of daily wages and casual basis increased to 2440 in 1986 and they were about 5% of the total. At the date of 31 Dec.1987 the total number of persons employed in UPSRTC, were 51,802, in which 3474 related with administrative branch, 33021 with traffic and 15,307 persons with engineering branch. There were 3903 persons (which included in total) employed as daily wages and casual basis as on 31st Dec.1987. They were about 8% of total employees.

The U.P.S.R.T.C. is also giving emphasis upon the employment of SC and ST persons also. The table No.3-8 shows representation of SC and ST employees in total employed persons as on 1st.January 1988.

TABLE No-~~28~~ 3-8

STATEMENT SHOWING THE REPRESENTATION OF SC AND ST EMPLOYEES AS ON 1st.JANUARY, 1988.

S.No.	Classification of post.	Total No. of Employees.	No. of SC Employees		No. of ST Employees	
			Total	Percentage	Total	Percentage.
1.	Class 'A'	68	4	5.9%	-	-
2.	Class 'B'	197	11	5.0%	-	-
3.	Class 'C'	36,277	3700	10.4%	212	0.6%
4.	Class 'D'	10,518	1837	15.4%	51	0.5%
Total		47,060	5552	11.8%	263	0.56%

Only in Class 'D' Total Sweepers = 839

Note: Daily wages and casual basis employees are not included in total no. of employees.

Source- Annual report of UPSRTC year 1987-88

It may be seen from table no.3-8 that the total number of ·ersons employed in UPSRTC as on 31 Dec.1987 were 47,060, out of which 5552 persons belonged to Scheduled Caste and 263 persons belonged to Scheduled Tribes. The percentage of SC employees to total was 11.8 % and ST was 0.56%. Out of total (5552) SC employees, 4 belonged to Class 'A', - 11, Belonged Class 'B', 3700 employees belonged to Class 'C' and 1837 persons belonged to Class 'D'. Similarly, out of total 263 employees of ST, 212 belonged to Class 'C' and 51 belonged to Class 'D'. However, there was not a single employee employed in Class 'A' and 'B'. It is also notable that the sweeper employees are not included in total no. of employe s in UPSRTC in the table no.3-8.

The growth of UPSRTC from the point of total number of buses and their operation has been satisfactory. The total no. of buses, their operation and day-wise earning kilometerage would be seen from the table no.3-9 on next page:

Contd.

TABLE NO.3-9

STATEMENT SHOWING TOTAL NO. OF BUSES AND THEIR UTILIZATION

S.No.	Particulars	1983-84	1984-85	1985-86	1986-87	31.12.87 1987
1.	Total no. of buses	5892	6040	6167	6452	6894
2.	Total no. of on road buses	4214	4362	4681	5436	6006
3.	% on road buses (On total)	72	72	76	84	87
4.	Day-wise per bus operation (in kilometer)	158	158	169	190	206
5.	Total kilometers (in crores)	40.5	42.8	44.4	47.6	40.7*

Source- Annual Report of UPSRTC Year 1987-88.

Note: * It is only nine month's figure.

It may be seen from the table no.3-9 that total no. of buses and their utilization has been continously increasing. Total no. of onroad buses were 4214 in 1983-84, which increased to 6006 buses on road on 31 Dec.1987. The percentage of onroad buses on total was 72% in 1983-84 and 87% as on 31 Dec.1987. Similarly, in year 1983-84 per day per bus earned 159 kms. while it increased 169 kms. in 1985-86 and 206 Kms. as on 31 Dec.1987. It, is, therefore, clear that the utilisation of capacity of buses are continuously increasing and operational result is satisfactory.

The U.P.State Road Transport Corporati n has been trying to establish the Automobile Work-shops in every district for the better utilization of buses. The index of Automobile Work-shops is given latter in fourth Chapter of Governing Board and Management of UPSRTC.

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CHAPTER IV

GOVERNING BOARD AND MANAGEMENT OF UPSRTC

CHAPTER IV

Governing Board and Management of U.P. State Road Transport Corporation:

(1), GOVERNING BOARD:

Governing Board plays a very vital role in any public enterprise. It is the main policy making body for the progress of an enterprise. It is constituted with the help of various specialists and experienced persons. The men in the board are of vital importance as the success and failure of such enterprises depends upon them. "The Governing Board of a PE is not nominated by the share-holders, who have contributed their valuable resources primarily with the objective of profits maximising but by the state, which wants to fulfil certain socio-economic goals for which these enterprises are basically established." In the field of policy formulation direction and control of public enterprises, Governing Board has a very important and definite role to play. It establishes a link between the owners (share-holders) and general public. In other words, the government policy can be effectively and successfully interpreted through the governing board.

The development of leadership in democratic way is also possible only through the governing board. In case of one man leadership, other people are not in a position to get sufficient opportunities for their development. Hence, Board is also necessary because a single administrator may follow such policies which may lead to over-centralisation of power and he may be

reluctant to delegate adequate authority to lower level.

(ii) MANAGEMENT:

Management consists of the rational assessment of a situation and the careful selection of goals, the systematic development of strategies to achieve those goals, the marshalling of the required resources, the rational design, organisation, direction and control of activities required to attain the selected purposes and finally, the motivating and rewarding of people to do the work.[01] Thus what m.k-s scientific knowledge or invention and machine productive is not their mere existence, but how they are used and how they are directed.

The management is generally required to deal with man and matter by a"judicious use of means and guide them by skilled and delicate treatment to arrive at definite objectives". Administr tion or management, therefore, requires a great amount skill with which a business enterprise is guided and controlled. Finance, equipment and materials may be organised and employees may carry out their duties but unless the management executes the operations systematically their performance may become so uneconomical as to cease entirely. The money, materials and men or their combination provide economic and beneficial results on account of successful operations of the management of the enterprise concerned.

The task of management of public sector enterprises is indeed a difficult one as they are expected to normonise

01- Levitt, Theodore, Management and the Post Industrial Society, - The American Review Vol.21, No.-4 Summer 1977, Page-37

the plans and result of operations of their enterprises. The economic operations of a public enterprises have to be performed in consonance with the social objectives for the fulfilment of which it is set-up. In fact, the management has to achieve several goals which may be conflicting in n ture, as they may be economic as well as non-economic.

Dr.E.F.L.Brech, defines management as a total process of executive control in industry and commerce or whereverelse it may occur, consisting of the responsibility for the effective or efficient planning and regulation of the operations of the corporation. The primary function of management is to achieve a desired level of production by perfect blending of human and physical resources.

FUNCTIONS OF GOVERNING BOARD:

The Broad functions of a Governing Board of Public Enterprise have been variously described by different authorities. But a clear-cut conception about functions of governing board of PE's have described by Prof. J.Prakash in the Indian context. According to him, the main functions of the Board of PE's would be- [C1]

(i) Establishment of Basic objectives and Policies:

The Board is responsible for laying down policies which include such questions as the determination of quality and quantity of product or services to be produced, pricing policy, re-organisation and development plans, human resource man gement and improvement of organisation structure in an organisation.

01- Prof. Prakash, J. "Administration of Public Enterprises In India", Himalaya Publishing House, Delhi, Vol.I- Page-141-142.

(ii). Fiscal Administration:

Majority of the decisions of the Board have financial implications. So control over the funds affords the Board an opportunity to give final decisions on these aspects. New capital investment decisions, recurring and non-recurring expenditures, resource generation, policy regarding divisible profits. Consideration of ways and means, current position of the enterprise are some of the questions which constitute the fisical administration function of the Board.

(iii) HUMAN RESOURCES MANAGEMENT:

It is the duty of Board to select competent personnel to operate the enterprise and to ensure the continuity of able management. The Boards in PEs are free to create any post except at the Board level and to make appointments without any restriction of salary. But at the same time, the Boards are also bound to follow the guidelines in regard to the benffits to be made available to the employees in respect of provident fund, retirement benefits, dearness allowance, house rent and other perquisites issued by the government from time to time. In addition, consideration of industrial relations, labour welfare and safety have also come up before the Board.

(iv) OPERATIONAL MANAGEMENT:

The Board is also responsible to review the operation of the enterprise continuously and repolicies, programmes, etc, as necessary by the circumstances prevailing in the organisation. The Board is also required to make contract, lay down future programmes, for the production, formulation of schemes for distribution, their development and reorganisation in the interest of the organisation.

(v). PUBLIC RELATIONS:

It is the duty of the Board to maintain liaison with Government and Parliament. Besides, it is also a job of the Board to consider and take decisions on questions relating to consumers and public from time to time, so that their faith may be maintained in enterprise. In this way, Board is required to fulfil the social responsibilities towards producers, consumers and public at large as entrusted by the government.

(vi). INTERNAL ORGANISATION:

It includes the appointment of the principal executive personnel and to lay down the structure of the organisation of the enterprise. The laws and by-laws relating to internal organisation have to be approved by the Board for the proper functioning of the management team.

(vii) LEGAL MATTERS:

Initiation, operation, withdrawl or support to the legal proceeding by the enterprise or against the enterprise are also to be approved by the Board. The Board is also required to take decision on matters like entrustment of any subject to arbitration, insurance proceedings relating to property and other legal formalities in the interest of the enterprise.

GOVERNING BOARD OF UPSRTC:

The number of bureaucrates in the UPSRTC board in year 1985, were 8 and Technical Directors were 7. The same situation prevailed in 1986 also. But there were some changes in year 1987-88. There were only 12 members (including Chairman) in the Board of UPSRTC. Out of which

6
~~8~~ Directors were Technical personnels and 5 were bureaucrates and only one nominated director was professional one.

It is clear, that the overall picture has not been satisfactory. Because the financial management of public enterprises must be on scientific lines. It should be manned by professional managers as well as technical. There should not be bureaucratization of financial management.

Effectiveness of Board of Directors depends upon the powers, which the board member jointly hold. Hanson mentions that broadly speaking boards are of two kinds. On the one hand, there is the functional board and on the other policy board. The functional Board consists of full time members incharge of particular branches of work, viz, Production, Financial, Personnel, Marketing Management. The men on the functional boards are there because of their expertise and experience in a particular Branch of activities being carried on by the enterprise.

The members of a policy board are drawn from outside the organisation and exercise a collective supervision over it and give advise both the minister concerned, on the one hand, and the management, on the other. Any one, who is considered to have a contribution to make to the progress of the enterprise, he may be civil servant or a private manager.

The UPSRTC, has been operating buses all over the State. The number of buses playing on the route was nearabout 6,500. It is highly desirable for it to provide prompt and efficient service to the people of the state. Only well-organised management would enable the UPSRTC to fulfil these requirements. Like other enterprises in

the State, the Corporation also is managed by a Board of Directors. Its main function are policy making, giving direction of their executives and exercise sufficient control over the working of UPSRTC.

The nationalised transport services have been run for about 40 years in the State. Before 1972, it was working as a Departmental undertaking and after 1972, it is being run as a corporation named UP State Road Transport Corporatic Before 1972, when it was running as a Government Roadeays, its general administration was under the charge of transport commissioner. All major decision to carry out by him. Government road transport policies used to be taken on behalf of the government by the Managing Board.

In UPSRTC, we find a mixed form of functional and policy board. Smt. Neera Yadava is an example of such type of re-presentation. On the other hand most of the persons are from outside in the organisation and their main responsibility is to provide a collective supervision to the organisation.

The Board had been consisting of the minister of transport as Chairman and Chief Secretary, Finance Secretary and Deputy Secretary transport and Transport Commissioner as members.

This type of board was successful in taking quick and prompt decisions. The presence of transport commissioner in the board also faciliated thecoordination between the boar and executive management. But, with the increasing pressure of Planning Commission and to attract the institutional financing and the shortage of funds, with the state governme for implementing the programmes of nationalisation, the government decided to convert the departmental pattern of undertaking into a statutory corporation.

The overall control of the corporation has been vested in a Board of Directors constituted in accordance with the provision of Road Transport Corporation Act 1950. The Act refrains from laying down the minimum and maximum members and proporti n of official and non-official members to be appointed.

After h ving an idea of functions and powers of Board of directo s, let us describe and analysis the various aspects related to governing Board of the corporation under the followin sub-head:

(A). Composition of Governing Board,
(B). Pattern of appointment of board members,
(C). Size of board,
(D). Tenure of board members and
(E). Board meeting and Responsibility of Directors,

(A). COMPOSITION OF GOVERNING BOARD:

It has been rightly observed by Hanson that "you cannot decide how to compose the board of nationalised corporation until you have previously decided, what the functions of the board are going to be.

In UPSRTC the functions of the board started with an advisory and representative board. The board of UPSRTC is mainly a representative board. It has larger number of members who are from various concerned departments of state government representing their interest in the organisation. The board of UPSRTC as per Articles of Association of the Corporation.

(B) PATTERN OF APPOINTMENT OF BOARD MEMBERS

In India, the Public Enterprise selection board has been entrusted by the government to recommend the names of suitable personnel for the appointment to the post of (a) Part-time Chairman (b) Chairman-cum-managing director (c) full-time functional/executive directors on the board of PEs. Part-time non-official directors are appointed by the concerned administrative ministry without reference to any suitable body, generally minister in-charge is following the practice to appoint the part time non-official directors with the prior consent of the board.

In UPSRTC two-third members were appointed by the state government and one-third members were appointed by the central government. If we analyse the history of appointment in governing board of corporation, we find, the during certain period change in board have been made very frequently. So far as the post of Chairman was Mr.V.K.Shahni in 1985-86 and Mr. V.K.Khatter in 1986-87. Its reason is the Chairman would U.P.government Secretary, department of transport as per provision of Articles of Association.

(C) SIZE OF BOARD

As Prof. Hanson has described the principles regarding size of board. The first principle is that the board should not be so large and hetrogenous as to make the decision making process slow and difficult. The large board tends to divide into fraction. In United Kingdom we regard some-thing

between 8 to 12 members as the ideal size whether the board is a policy or functional kind. In France, they originally had 18 members on the Board of Coal Gas and Industry, composed on the tripartive principle, six representative of State, six of the customers and six of the workers. This figure was later reduced to twelve as 18 members board was considered too big.

The second principle is that six of the board should be large enough to enable some variety of knowledge and experience to be represented on it.

In U.P.State Road Transpot Corporation, maximum number of members on the board of Corporation including Chairman is twelve (12) as per UPSRTC notification No.2869/30-2-432, T.68, dated 31st. May,1972.

(D) TENURE OF BOARD

According to Articles of Association of Corporation, one third directors who are liable to retire by rotation are supposed to seek retirement every year, directors appointed by Governor of Uttar Pradesh and nominees directors from Bank and financial institutions are not liable to retire by rotation. Similarly, there is no ascertained rule for removal of Managing Directors and Chairman as they are appointed or removed by the Government of Uttar Pradesh. In case of UPSRTC the member tenure will be for one year from the date of assumption of office and they were entitled for reappointment. It is notable that all the official members have been appointed in ex-officio capacity and on part-time basis, except Chairman of the Corporation. The Chairman has been working as Chief-Executive of the corporation on full time basis. He is responsible for

the policy formulation and execution of policies is the responsibility of managing directors. Prior to appointment of Chairman on full time basis, general manager worked as Chief-executive.

The Board of directors has power to appoint, bus drivers, conductors, clerks and servants for permanent temporary or special service. It may also determine the powers and duties of various personnels and can fix their salaries and emoluments. It may also remove, suspend or terminate the staff as well as officers.

(E). BOARD MEETING AND RESPONSIBILITY OF DIRECTORS

If the Chairman is also Chief executive, a distinction must be made between two responsibilities. A Chairman not only presides over the Board's meeting, but has to make sure that Board is provided with adequate information to comprehend the matter which comes before it. He should also use his experience to draw out directors' role to the decision and maintain effective relations between the Governing Board and the executive management. As Chief executive, he is responsible to carry out the policies and programmes formulated by the board. In this way, he has to play dual role - one coordinator as well as administrator and second in the operational behaviour of the enterprise.

ORGANISATION OF UPSRTC:

It is quite worthwhile to make a study of the organisational structure of UPSRTC. That would help us in understanding the overall position and picture of various

executives in the organisation, their rights and duties and the relationship that subsists among them.

At the top is the Managing Director who is responsible for the effective administration of the corporation and execution of policies. In his duties, managing director is assisted by Additional General Manager, Superintending Engineer, Secretary, Chief Security Officer, Chief Accounts Officer and Deputy Manager (General)-Stores, Development, Personnel).

The additional General Manager is responsible for the organisation of 'O' and 'M', division, supervision of workships and recruitment for the post of gazetted officers. In this work he is assisted by Deputy General Manager (Operations). Deputy General Manager (Operations) is responsible for traffic and operation of regional and sub-regional management. In this work he is assisted by Asstt. General Manager (General).

Deputy General Manager for mechanical Engineering is responsible for the management of engineering branch and also for purchases of vehicles. In this work, he is assisted by Asstt. General Manager (Mechanical Engineering). The Joint General Manager for Administration and Personnel is responsible for the supervision of headquarters establishment and recruitment Cell. For this, he is assisted by General Manager Operation, Regional Manager for rules and Senior Law Officers.

Administrative Officer is assisted by Labour Welfare Officer and Public Relation Officer, Superintendant Engineer is responsible for the construction of offices, depots, and other workshops. In this work he is assisted by the Executive Engineers. The Secretary is responsible for the secretarial work, like meeting, preparation of agenda and other secretarial works.

The Chief Security Officer is responsible for the overall security measures at various levels and investigation of enquiries. In this work, he is responsible by Security Officers

(I) and Security Officer (II).

The Chief Accounts Officer is responsible for the work related to budget, finance accounts and audit etc. For this, he is assisted by Deputy Chief Accounts Officers for Budget, Deputy Chief Accounts Officer for Accounts. There are several accounts Officers and Finance Officers who have been appointed to assist these officers.

The De uty General Manager for Storesis responsible for the purchase of spare parts, tyres, tubes and other materials. He is also responsible for distribution of these materials and inventory control. In discharge of his duties he is assisted by additional Tools Officers.

The De uty General Manager for Development is responsible for overall development of corporation. The De uty General Manager (Personnel) is responsible for recruitment, training of employees, promotion, demotion and management devel ment, etc.

The overall position and clear cut picture of executive managerial set up of UPSRTC may be observed from the chart on the next age-

EXECUTIVE CHART OF UPSRTC

CHAIRMAN

Managing Director — Joint Managing Directors — Manager (General)

Joint General Manager (Planning)
- Asstt.G.Manager (Personnel)
- Asstt. General Manager (Development)

Director (Technical)
- Chief Engg (Mech)
  - Asstt.G.M. (Central Workshop)
  - Asstt.G.M. (Elenforest Workshop)
- Additional Gen.Manager (Tech.)
  - Asstt.G.M. (M.E.)
  - Asstt. G.M. (M.M.T)
  - Exe.Engg. (Building (East)
  - Exec.Engg. (Building West).

Additional G.M. (Operation)
- Asstt.G.M Operation

Secretary (Corporation)

Chief Securit[y] Officer

Chie[f] Accou[nts] Office[r]
- Asstt.G.M. (Finance)
  - Asstt. Chief Accounts Officer (Commercial)
  - Asstt. Chief Account Officer (Budget)
  - Asstt. Chief A.[O.] (Internal Audit).

Admin. Ofiicer — Personnel Officer — Senior Labour Welfare Officer — Public Relation Officer. — Asstt.General Manager (M.I.S) — Legal Law Officer

- Additional Law Officer.

Source:- Annual Report of UPSRTC 1987-88.

If we study the organisation chart of UPSRTC we find that overall organisation structure of UPSRTC is satisfactorily decentralised.

The corporation has been divided into Four Zones-

(1) Northern Zone (ii) East Zone

(iii).Middle Zone (iv) Western Zone.

One Deputy General Manager is appointed in each Zone. Zonal Deputy Manager is the overall in-charge of the zone. In this work he is assisted by Regional Manager and service Managers.

CHART OF ZONE LEVEL

S.N.	East Zone (Region)	WEST Zone (Region)	North Zone (Region)	Middle Zone (Region)
1.	Allahabad	Dehradoon	Bareilly	Lucknow
2.	Azamgarh	Meerut	Nainital	Kanpur
3.	Varanasi	Aligarh	Tanakpur	Jhansi
4.	Gorakhpur	Agra	Moradabad	Faizabad
5.	-	Gh.ziabad	-	-

Before 1986-87, the corporation was divided into four Zones and 18 Regions. There was 110 depots in the State. But after 1986-87, the corporation had decided to divide it into Zones and Regions only. Every Zone will have four to five regions, as it is clear by chart of Zone level. There are 17 Regions in the State. A Regional Manager is deputed to take

care of his region, with the help of station-in-charge as well as foreman (See Annexure 4-B). There are III total number of automobile workshops with corporation and every station-in-charge is responsible for the operation of fleet with the help of his assistant, viz. drivers, conductors, clerks etc.

Thus, we find that the gover ing board of UPSRTC is not yet fully professionalised. More and more efforts should be made to infuse the professionalism it. So far as the executive management is concerned, there is a lot of room for improvement. Recently, efforts have been made to bring about professionally trained personnels for its lower level management. For better performance, it is quite necessary that a Memorandum of understanding should be signed between the Government, on the one hand, and the management of the corporation, on the other, so that more autonomy may be given to its management. But that would also make the management accountable for the agreed performance.

CHAPTER V

LONG TERM FINANCIAL MANAGEMENT OF UPSRTC

LONG TERM FINANCIAL MANAGEMENT OF UPSRTC

The adoption of socialist pattern of society as the national objective, as well as need for planned and rapid development, require that all industries of basic and strategic importance or in the nature of the public utility services, should be in public sector. The state has assumed direct responsibility for the future development of business over a wider area. The number of new enterprises and the range of their size and of variety may give an idea of the management problems involved. Public undertakings also face problems in securing managerial personnel of high quality. In beginning most of the managerial personnel in these undertakings come from Government Departments and not from the industrial and commercial fields. This made it difficult for them to procure the services of persons well-versed in management skills.

Financial management refers to that part of managerial activity which is concerned with the planning and controlling of the firms financial resources. As a separate managerial activity or discipline, it is of recent orgin. It has not yet acquired an unique body of knowledge of its own. It has been drawing heavily on economics for its theoretical concepts. The subject of financial management is still developing and it has, even now, certain areas where controvercies exist for which still there is no unanimity.

It has been rightly stated that finance is life blood of business. Its role, has gained im ortance at a faster rate

in the modern money economy. The time and extent of the availability of finance in any organisation dictates the destiny of all business activities. It is because, now a days, the operations of business are carried on at a very large scale.

James C.Van.Horne rightly stated that "overall then finance concept has changed from a primarily descriptive study to one that encompases rigorous analysis, from a field that was concerned primarily with the procurement of funds to one that includes the management of assets, the allocation of capital and the valuation of the firm, as a whole and from a field that emphasised external analysis of the firm to one that stresses decision making within the firm today a best charecterised as ever new ideas and techniques. The role of financial manager is considerably different from what it was few years ago and from what it will, no doubt, be in another coming years. Academicians and financial mangers must grow to accept the changing of environment and its challenges." 01

Hence it is clear that in the changing environment, financial management is a part and parcel of public sector management. Financial management is directly concerned with production, marketing and other function of public enterprises. The management of financial resources of state enterprises assume special significance involved, because of the leadership role expected to be played by state units within the frame work of a mixed economy.

01- James, C.Van, Horne, Financial Management and policy (Edition III) Standford University, Page 9.

The method of financing of statutory Corporation is generally indicated in their relative statutes. The financial adviser cum Chief Accounts Offfcer heads the financial and adcounts division. The financial division performs three types of functions. They are:

(1). Functions relating to financial a visor ship, when the financial adviser cum Chief Accounts Officer acts as a counsel and a guide of management;

(2). Functions pertaining to financial management as cost accounting, reviewing cost audit, instilling cost conciou ness and controlling inventory,

(3). Routine accounting functions as payment of bills, maintenance of proper accounts books, proper upkeep of cash, preparation of final accounts etc.

In public enterprises, unlike other functional heads, the financial advisor is ap ointed by the government. He has the right to report differences, if any, with the Chief Executive.

The financial management has to make appropriate financial decisions in such a way as to maximise wealth of shareholders. The important decisions which are made, may be summed up under the following heads-

(A). Capital Budgeting or Expenditure Decisions,

(B). Capital structure decisions,

(C). Profit/Divident allocation decision.

(A). Capital Expenditure (Budgeting) Decision:

Capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently

in long term activities in anticipation of an expected flow of future benefits over a series of years. Definite guidelines have been framed by the government of India within the frame-work of which public enterprises, particularly after 1962, have to make capital expenditure decisions. They are:

(i). Certain powers are delegated to the Board of Directors to incur capital expenses,

(ii). An early preparation of detailed project report is strongly recommended. Feasibility reports of a project are already prepared before any financial commitment are made,

(iii). It is necessary to ensure that the authorities sanctioning the projects have before them a statement showing the extent of the investments actually made,

(iv). The need for the preparation feasibility studies was particularly emphasised, since it was realised that delays in foreign aid utilisation were primarily due to the dearth of self conceived projects, moreover, before any investment proposal is made for external assistance, feasibility st dy must be un ertaken after investigation. The feasibility study should ensure the project on the following aspects-

(a). Demand analysis
(b). Pricing,
(c). Technical development of project,
(d). Project cost estimate,
(e). Profitability analysis,
(f). National economic benefits, and other.

(B). CAPITAL STRUCTURE DECISION:

The capital requirements of public sector enterprises are largely financed by government, specially in gestation period. However, the major emphasis in policy decision bearing on capital structure has been an adherence to a particular equity-debt ratio as well as the terms on which government can provide loans, Until June, 1961, when it decided equity-debt ratio rate 50:50. The government did not have any clear policy in regard to equity-debt ratio. After 1961, various committees that examined this issue observed that there cannot be one common ratio applicable to all the undertakings.

B.S.Sharma, analysed his observation on capital structure of public sector projects in India in

(i) In gestation period,
(ii) In operating period
(iii) In expansion period.

According to him, during the gestation period the government offers loan on terms which are fairly flexible.

During the operating period the size of working Capital grows continuously.

During the expansion period there are no properly constituted systems of financial planning. Internal resources cannot be diverted into expansion and government has agreed to relax the norm of 50:50 equity-debt ratio.

(C). PROFIT ALLOCATION DECISION OR DIVIDEND DECISION:

Profit allocation or dividend decisions belong to critical area of financial management which brings into operation the conflicts of interest between management and share-holders and also between one group of shareholders with another. Many factors have to be kept in view while determining

dividednt policy, such as, nature of earnings, reinvestment alternatives, out flow of cash, working capital position, new capital requirements, market value of share and the position of share holders etc. It is not possible to analyse all th se factors in detail here.

FACTORS DETERMINING FINANCIAL STRUCTURE WITH REFERENCE TO UPSRTC

Financial structure refers to the make up of the permanent capital of the company. There is no such thing as the model capital structure for all business enterprises. There are common characteristics that seem to typify certain industries. For instance, public utilities are typically heavily leveraged with debt and preference shares as compared to the manufacturing concerns. As a matter of fact, the terms financial structure are interchangeable. The capital structure decision is a continuous one and has to be taken when ver a firm needs additional finances. It is often suggested that a capital structure should be determined which can maximise the long run value per ordinary share in the market. Generally , the following factors should be considered whenever a capital structure decision has to be taken-

(i). Trading on equity
(ii). Capital gearing
(iii). Cost of capital
(iv). Maximum control
(v). Cash flow ability of the company
(vi). Flexibility and
(vii). Size of the company.

The above factors, will be discussed, one by one, with special reference to U.P.State Road Transport Corporation in the following pages.

(1). TRADING ON EQUITY:

Meaning-

Generally, borrowing is peculiar to short-term finance, but one of the main reasons for a long-term borrowing is financing by fixed assets. After the term debt is backed by fixed assets of the enterprise. The debt financing as the main policy of the enterprise is associated with the concept of trading on equity. The trading on equity is a device to earn higher earnings on the share capital of the company. Till an enterprise uses borrowed capital in the regular conduct of business with a view to earning more on it that what it pays in the form of interest, it continues to borrow profitably. If borrowed funds are used with this object, the company is said to be trading on equity. The intensity of trading on equity can be measured by the following two ratios-

(A). Debt-Equity Ratio-

The debt equity ratio shows the relative contributio of owners and long-term creditors. To calculate this ratio the figure of total debts is divided by net worth, the ratio can be expressed as turn-over or as percentage-

Long-term debts to equity Ratio =

$$= \frac{\text{Long-term debt}}{\text{Equity Capital + Reserves and surplus}}$$

(B). Coverage of Fixed-Charges Ratio-

This denotes the factor of safety i.e. the extent to which earnings can decline without causing embarrassment to creditors and preference share holders in respect of payment of interest and dividend. The figures

of profit before inter st and taxes are divided by interest =

Coverage Interest Payment Ratio =

$$\frac{\text{Earning before Interest and Taxes}}{\text{Interest.}}$$

Trading of equity of UPSRTC-

The total capital invested in UPSRTC shows a continuously increasing trend. The total capitalinvested in UPSRTC has been increasing from Rs.69.27 Crores in 1975-76 to Rs.428.25 in 1987-88 (Upto Dec.1987). If we analyse the table No.5-1, we find that the equity base has been increasing from 21.7 % in 1975-76 to 36.3 % in 1987-88, whereas proportion of loan has declined from 42% to in 1975-76 to 20% in 1987-88.

The proportion of internal sources in total capital has also changed. The internal resources in 1975-76 was Rs.25.19 crores, which is the 36% of the total invested capital. It increased in 1987-88 to Rs.189.60 crores, which was 44% of total capital invested.

It is clear from the table No.5-1, that the total borrowed capital has always been more than the equity capital. In fact, if we see the table it may be seen that it has been nearabout double in comparison to equity. In table No.5-1, we findthat the debt-equity ratio was 1.94 : 1 in 1975-76 and it further increased to 2.02 : 1 in 1976-77. But after 1976-77, the debt-equity ratio shows a decreasing trend. We find that the debt-equity ratio is almost 1:1 after 1979-80 to 1985-86, which is generally the accepted norm for public enterprises in India.

The debt equity ratio is almost 50 :50 after 1979-80 whereas internal resources occupy a significant proportion in the total capital structure. It is clear from the table No.5-1:

Table No.5-1

CAPITAL STRUCTURE OF UPSRTC

Rs.in crores

Year	Paidup capital.	% of Paidup Capital	Net Loans *	% of loan to total	Internal Resources Reserve & Deprecia-tion.	% of Internal Resources	Total (2+4+6)	Equity Debt Ratio
1.	2.	3.	4.	5.	6.	7.	8.	9.
1975-76	15.00	21.7 %	29.08	42%	25.19	36%	69.27	1.94:1
1976-77	17.25	20.2 %	34.68	41%	32.95	39%	84.88	2.02:1
1977-78	21.45	22.1 %	32.91	34%	42.83	44%	97.19	1.54:1
1978-79	26.93	23.1 %	35.68	31%	53.94	46%	116.55	1.35:1
1979-80	33.47	24.2 %	39.36	28%	65.62	47%	138.45	1.17:1
1980-81	40.02	24.1 %	48.10	29%	78.20	47%	166.32	1.20:1
1981-82	46.97	24.5 %	51.29	27%	93.21	49%	191.47	1.10:1
1982-83	65.25	30.6 %	39.81	19%	107.87	50%	212.93	0.62:1
1983-84	71.28	29.6 %	48.65	20%	120.94	50%	240.87	0.68:1
1984-85	84.84	30.2 %	61.69	22%	134.90	48%	281.43	0.73:1
1985-86	103.17	32.3 %	73.21	23%	153.19	48%	319.57	0.71:1
1986-87	144.71	37.0 %	73.11	19%	173.14	44%	390.96	0.51:1
1987-88 (Dec.1987)	155.26	36.3 %	83.39	20%	189.60	44%	428.25	0.55:1

Source- Compiled from the help of Annual Report of 1987-88) UPSRTC.

Note- * Net loans = Total Loans - Refunded loans
The data after 1979-80 are not certified by Auditor General.

It may be seen from table No.5-1 that the internal resources occupy a significant proportion in total capital structure. This shows the prudent and conservative financial policy adopted by UP State Road Transport Corporation. Because the State Government look upon the corporation as a creators of new wealth and expected the corporation to yield resources for financing the Five-Year Plans. The U.P.Govt. has also felt that financing for expansion should be taken as a specific obligation of public enterprises as well as UPSRTC.

(ii). CAPITAL- GEARING:

The proportion in which different form of securities are to be issued, is decided on the basis of policy decision regarding capital gearing. The ratio of ordinary shares to preference share capital and loan capital is described as the "Capital Gearing". A highly geared capital isone which has a small proportion of equity capital including any reserves. If the larger proportion of total capital is made up of equity capital is called to be 'Low geared'. Thus, capital gearing is not only important to the company but also prospective investors. The otherratio by which capital gearing is calculated is as under-

Preference capital + Debentures/Loan to equity Capital %

Capital Gearing and UPSRTC

As on 1st. June, 1972, the Government Roadways was converted in UPSRTC to bring efficient and autonomy in

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Capital Gearing and UPSRTC

As on 1st. June, 1972, the Government Roadways was converted in UPSRTC to bring efficient and autonomy in

services of activities of transport services. The U.P. Government had placed at the disposal of the Cofporation Rs.12 crores as a equity capital. The State Government did not contribute any amount from 1973 to 1975-76. But Capital structure of UPSRTC has been sound since 1976-77 whereas the internal resources occupy a significant proportion in the total capital structure. A low gearing trend may be seen in the capital strcuture of UPSRTC. It shows the prudent and conservative financial policy adopted by governing board of the corporation.

It may be seen from the table No.5-2 on next page-

TABLE NO.5-2

(Rs.in cror

Year	Equity Capital State Govt. Share	Central Govt. Shares.	Internal Resources	Total (2+3+4)	Total loans	% of Capit Gearing.
(1)	(2)	(3)	(4)	(5)	(6)	(7).
1975-76	12.00	3.00	25.19	40.19	29.08	69.9%
1976-77	13.50	3.75	32.95	50.20	34.68	69%
1977-78	16.50	4.95	42.83	64.28	32.91	51%
1978-79	21.33	5.60	53.94	80.87	35.68	55.5%
1979-80	25.81	7.66	65.62	99.09	39.36	39.7%
1980-81	29.11	10.91	78.20	118.22	48.10	40.7%
1981-82	34.11	12.86	93.21	140.18	51.29	36.6%
1982-83	49.11	16.14	107.87	173.12	39.81	23%
1983-84	54.11	17.17	120.94	192.22	48.65	25%
1984-85	64.11	20.73	134.90	219.74	61.69	28%
1985-86	74.11	29.06	153.19	256.36	73.21	28.5%
1986-87	108.70	36.01	173.14	317.85	73.11	23%
1987-88 (Dec.1987)	118.70	36.56	189.60	344.86	83.39	24.2%

Source- Compiled with the help of Annual Report of UPSRTC
The data after 1979-80 are not certified by Auditor General.

It may be seen from table No.5-2 that the Corporation's capital gearing is as per norms suggested by the experts of financial management. The table shows that after 1976-77, the U.P.Govt. contributed equity capital every year to UPSRTC. This contribution shows an increasing trend of capital gearing. The total capital of contribution of U.P.Govt. amounted Rs.12.00 crores in 1975-76 which increased to Rs.118.70 crores in 1987-88.

Similarly, the central government contributed Rs.3.00 crores in 1975-76 as equity capital. After 1975-76, the Central Government has contributed continuously but the contribution dees not show an increasing trend. The contribution of Central Government has increased from Rs.3.00 to Rs.12.86 crores in 1981-82 and R .20.73 crores in 1984-85. The total contribution of Central Government to the corporation was Rs.36.56 Crores at the end of 31st.December,1987.

The internal resources also increased. The total reserves (including depreciation) was Rs.25.19 cr. in 1975-76 and which has increased to Rs.199.6 Cr. at the end of year 1987. But the tenders of the corporation has a decreasing trend. At is very good situation of financial structure as well as capital gearing. Its reason is, the State Government is taking more interest to improve working of UPSRTC. So that it may provide more fecilities to the public of the state.

(iii). Cost of Capital-

The term cost of capital, generally refers to the interest or dividend payable. The cost of capital is an important concept in formulating a firm's capital structure. According to F.Modigliani and M.H.Miller-

"The average cost of capital to any firm is completely independent of its capital structure and is equal to the capitalisation rate of pure equity stream of its class. This mean that the cost of capital is earning per share (E/P) and it does not change with change in the debt-equity ratio and it is the same for all finance alternatives, assuming no taxes".[01]

Capital inform of shares or debentures has to be attracted and then maintained in the business. It means that the interest payable in case of loan on the sharecapital invested. The total cost of maintaining loan and share capital should be kept to the minimum. So it is necessary for alternative capital structures to be compared.

There are many ~~lat~~ alternative of external resources to obtain the finance of any enterprise such as debts capital, issue of preferencial shares and equity shares, reinvestment of retained earnings, etc. Some formulas are given here to calculate the cost of capital in case of each type of capital-

1. <u>The cost of Debt Capital</u>

$$cd = (i - T)R$$

Here, cd = Cost of debts

i = Annual interest payable

T = Rate of Tax

R = Rate of Interest.

2. <u>Cost of preferencial shares</u>-

$$CP = \frac{PD}{NP} \times 100$$

Here, CP = Cost of preferencial shares

PD = Total amount of preferencial dividend

NP = Net product of share.

01- F.Modigliani and M.H.Miller, "The cost of capital, Corporation Finanace and the Theory of investment", American Economic Review, June 1958-Page-268

3. Cost of equity share capital

$$Ce = \frac{EPS}{NP} \times 100$$

Here, Ce = Cost of equity share capital
EPS= Earning per share
NP = Net product of share.

It is notable that the cost of every kind of capital cannot be equal, some resources are costly while others are cheeper. It is necessary for the financial managers to choose the balanced alternative of resources for the composition of balanced capital structure, because any company either in form of small or large scale cannot collect its financial requirements through one resource only.

COST OF CAPITAL AND UPSRTC

As a matter of fact, there are many sources to finance the capital requirements and which one of the alternative arrangements is the best, depends upon government policy for the public corporations. The public enterprises can not issue shares and debentures to the public, obtain loan from public or can not easily approach bombers and financial institutions to finance their capital requirements.

In case of UPSRTC, the State Government as well as Central Government have contributed equity capital in ratio of 3:1 respectively. The Corporation is paying interest to

both the state and Central Government. The Corporation has received loans from the various financial institutions from time to time and rate of interest is nearabout equal of all institutions. Hence the valuation of cost of capital is nearabout constant and it has depended on the financial policy of government, yet the interest payable to government and financial institutions is increasing. It may be seen from the following table No.5-3 on next page-

Contd.

TABLE NO.5-3

STATEMENT SHOWING THE PAYABLE INTEREST ON CAPITAL AND LOANS.

	STATE GOVT.		CENTRAL GOVT.			(Rs.in lakhs)
Year.	Interest payable	Interest paid.	Interest payable	Interest Paid.	Financial Institutions	TOTAL (2+4+6)
1	2.	3.	4.	5.	6.	7.
1975-76	75.00	100.00	58.21	25.00	75.07	208.28
1976-77	76.18	181.00	58.21	166.63	119.51	253.90
1977-78	84.68	200.00	60.65	120.00	143.99	289.52
1978-79	103.21	203.68	68.76	-	239.17	411.14
1979-80	133.31	161.31	68.76	-	193.14	395.21
1980-81	161.31	-	68.76	120.00	306.66	534.63
1981-82	193.32	-	68.76	-	424.16	706.24
1982-83	280.17	250.00	88.76	-	416.33	785.16
1983-84	140.91	-	88.76	168.69	640.71	870.38
1984-85	306.94	-	86.38	-	1001.59	1394.91
1985-86	306.94	250.00	101.71	-	958.75	1467.40
1986-87	1058.45	-	168.46	250.00	67.24	1294.15
1987-88 (Dec.1987)	306.94	-	13.14	-	1000.49	1320.57

Note- The data after 1979-80 are uncertified by A.G.U.P.

Source- Compiled with the help of Annual Report of UPSRTC and Budget Section of UPSRTC.

It may be seen from table No.5-3 that the total interest payable in 1975-76 was Rs.75.00 lakhs, which increased upto 161.31 lakhs in 1980-81 and Rs.280.17 lakhs in 1982-83. It shows an increasing trend of pay ble interest after 1984-85 to 1986-87, but it decreased in 1987-88. The total interest payable by the corporation was Rs.306.94 lakhs for the year ended 31st.December 1987. The highest interest payable was in year 1986-87. It may also be notable that the Corporation paid interest to State Government from time to time. In 1979-80 Corporation paid interest of Rs.161.31 and there was no balance of interest which remained unpaid to the State Government at the beginning of year 1981-82. The Corporation paid interest of Rs.250.00 lakhs in 1985-86. After 1986-86, no payment of interest has been made by the Corporation.

Similarly, interest on capital contributed by Central Government shows the same position as the State Government. Interest payable to Central Government also shows an increasing trend from 1975-76 to 1986-87. The total interest payable to Central Government was Rs.58.21 in 1975-76 and Rs.101.71 in 1985-86. It also decreased in year 1987-88. There was only Rs.13.14 lakhs interest payable for the year ended 31st.December, 1987. The Corporation has tried to pay payable interest regularly year by year, so that the burden of interest may not increase and financial position of the Corporation may be strong, but the Corporation is unable to pay all the balances of payable interest to the Central Government. The Corporation has paid Rs.25.00 lakhs in year 1975-76 and Rs.166.63, Rs.120.00 lakhs in year 1976-77 and 1977-78, respectively. The Corporation has paid Rs.250.00 lakhs in the year 1983 and 1986.

The interest on debt has also increased it may be seen from table No.5-3. The loan provided by financial institution to the Corporation has increased every year. The payable interest on loan to financial institutions was Rs.75.07 lakhs in 1975-76 which incfeased upto 1977-78 but decreased in 1978-79. The highest payable interest was Rs.1001.59 lakhs in 1984-85. There was a balance of payable interest for the year ended 31st Dec.1987, amounted Rs.1000.49 lakhs.

Though the Corporation refunded loans from time to time to financial institutions yet the burden of interest payable to financial institutions was increasing continuously.

A picture of receipts and payment of loans by the Corporation to the various institution may be seen from the Table No.5-4, given on next page.

TABLE NO.5-4

STATEMENT SHOWING RECEIPT AND PAYMENT OF LOANS FROM VARIOUS INSTITUTIONS:

(Rs. in Lakhs)

ear.	STATE GOVT.		Central Govt.		L.I.Corp.		I.D.B. of India.		Other Institutions.	
	Receipt	Payment	Receipt	Payment.	Recpt.	Paymt.	Redpt.	Paymt.	Recpt.	Paymt.
975-76	280.00		-	-	-	-	52.44	25.22	194.89	139.50
976-77	-	118.67	-	-	-	-	325.82	44.31	396.68	-
977-78	-	18.67	-	-	-	-	19.89	128.03	-	50.00
978-79	-	18.66	-	-	-	-	72.31	107.61	414.31	83.75
979-80	-	18.67	-	-	600.00	-	78.99	97.66	84.00	277.84
980-81	424.00	18.66	-	-	500.00	60.00	-	111.33	250.00	110.68
981-82	500.00	522.10	-	-	500.00	80.00	121.09	89.84	50.00	160.32
982-83	-	1022.09	-	-	135.00	160.00	12.24	54.68	-	58.01
983-84	500.00	-	-	-	182.00	173.50	701.59	98.47	-	227.71
984-85	-	40.77	-	-	200.00	191.70	1689.95	313.00	-	40.00
985-86	50.00	25.53	-	-	220.00	191.70	1726.47	586.77	-	40.00
986-87	-	1959.53	-	-	242.00	211.70	2851.96	933.18	-	-
987-88 - Dec.1987)	-	-	-	-	-	-	2271.64	-	-	-

Note: The data after 1979-80 are uncertified by A.G.U.P.Allahabad.

Source:- Compiled with the help of Annual report of UPSRTC. Year 1980-88.

It may be seen from the table No.5-4 that the receipts and payments of loans by Corporation was as under at the ended of 31 Dec.1987

Rs. in Lakhs.

1- State Government-

Total loan Receipt	=	3963.46
- Amount Refunded	-	3763.46
Total Balance payable	=	200.00

2. Life Insurance Corporation of India.

Total loan =	=	2579.00
Less refunded	=	22 1140.60
Balance payable	= Rs.	1438.40

3. Industrial Development Bank of India-

Total Loan	=	10,056.96
Less Refunded	=	3,801.85
Balance payable	=Rs.	6,255.11

4. Loan from other Institutions-

Total loan	=	1653.05
Less Refunded	=	1207.81
Balance payable	= Rs.	445.24

Note: The calculation of receipts and payments of loans have been made from 1st. June 1972 to 31 Dec.1987, between the operation period of UPSRTC.

It may be seen from the summary of loans payble to the various institution that it was Rs.8338.75 Lakhs (200.00+1438.40+ 6255.11 +445.24) at the end of 31st Dec.1987 which is nearabout 55% of total equity capital of UPSRTC.

It is also clear that the role of these institutions has been quite significant. The share of total borrowed capital by Financial Institutions are 63% while the Govt. share is 37% of total loan.

(IV) MAXIMUM CONTROL AND UPSRTC.

"The issue of ordinary share involves the problem of maximum control. To the extent that the additional issue of ordinary share is made to new shareholders as against the existing shareholders, there is a dilution in the control of existing share holders. On the other hand, the debt issue and preference share alternative do not effect the control of existing group, because the preference shareholders may have a right to elect a minority of directors in the event of lapse in dividend payment." 01

The correct balance between the voting capital or equity capital and loan capital should be maintained but the ideal ratio is difficult to determine. Some accountants may take the view that the absence of loans is a sign of great strength, w ile others may argue thatthe existence of loans is an indication of growth and profitability. Many growing companies often choose to borrow rather than to sell equity shares due to fear of the risk to management by wider public holding or voting control.

In case of UPSRTC, it may be seen from the composition of governing Board of UPSRTC, the more pow r has been given to the bureaucrats nominated by Central as well as State Government, against Corporation's nominee directors. Due to this the planning for financial control is effected by these bureaucrats.

01- Kuchhal, S.C., Financial Management (An analytical and conceptual approach). Chaitanga Publishing House, University Road, Allahabad, Chapter-Planning of Capital Structure, Page-570.

(V) CASH-FLOW ABILITY

To obtain a balanced capital structure, one has not only to consider the factors of income, cost of capital, and maximum control but also the cash-flow ability of the company. One of the features of a sound capital structure is conservatism, which does not mean employing no debt or small amount of debt. Conservation is related to the fixed changes created by the use of debt of preference capital in the capital structure. In case of UPSRTC, the cash flow ability is not quite sound because the cash flow ability of the corporation is very critical and complex.

(VI). FLEXIBILITY

Flexibility means the capacity of the business and its management to adjust to the changes in circumstances. Flexibility is one of themost serious consideration in the realm of capital structure. The capital structure of a firm is flexible if it has not difficulty in changing its capitalisation or souices of fund. The company should also be in a position to redeem its prefernce capital debt whenever warranted by the future conditions. Most financial executives prefer to hold some of their debt capacity in reserve. They have provided for a certain sources of funds on which they can lay their hands quickly when the unexpected need suddenly present itself.

In case of UPSRTC the Corporation has no such type of flexbility, because it is depended upon the financial policy of government. Although there are some sources in the hand of Corporation's management yet they are not in a position to use their rights for the financial flexbility.

(VII) SIZE OF COMPANY-

The size of company generally influences the availability of funds from different sources. A small company finds great difficulties in raising long-term loans. Even if it is able to obtain some long-term loans it might be available at a high rate of interest and in convenient terms. The highly restrictive conditions of loan agreements in case of small scale corporation make their capital structure veryinflexible and management can not run business freely without any interfrence.

In case of UPSRTC, the aim of the Corporation to provide adequate and comfortable transport facilities to the persons of the State and functioning on a no-profit-no-loss basis. All the financial requirements are met by the state and Central Government, either in form of equity or debt capital. Though the Corporation is authorised to deal loan with any scheduled Bank, yet complete security of Government financing fails to create the necessary financial discipline in UPSRTC.

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RATIO ANALYSIS OF UPSRTC.

We may analyse the financial state of affairs of UPSRTC with the help of recognised ratios, as a tool for analysis. These ratios help us in understanding and compaining the developments. In fact, ratio analysis is "the process of determining and interpreting relationship based on financial statement." Ratio analysis is a useful indicator of performance of a concern and thereby examine the efficiency and performance of management in carrying out the operation."

Before, we compute the ratios connected with the UPSRTC, it would be quite useful to explain the relevant selected ratios. They have been explained briefly as follows:

(1). Structural Group-

Under structural group, there can be four Ratios analysis-

(A). Funded debt to total capitalisation-

This ratio is computed by dividing funded debt by total capitalisation. It can be expressed as percentage . There is no any hard and fast rule can be set-down o to what a proper relationship should be, but earning power of a company may justified a higher pecentage.

(B). Debt to equity:

This ratio is computed by dividing total liabilities by equity share capital including reserves and surplus, if any. The higher this ratio the less the protection for creditors.

(c). Net fixed assets to funded debt:

This ratio gives an indication of the extent to which equity capital is invested in net fixed assets. A Ratio of 2 : 1 would mean that for every rupee of long term indebtness, there is two rupees of net fixed assets.

(d). Funded debt to net working capital-

This ratio is calculated by dividing the long term debt by the amount of net working capital. Funded debt should not exceed net working capital.

(2). LIQUIDITY GROUP:

Under this group, there are two ratios analysed-

(a). Current Ratio-

Current ratio is computed by dividing current assets by current liabilities. This ratio is generall an acceptable measure of short term solvency. A current ratio of 2 : 1 has ~~beny~~ been considered generally satisfactory.

(b). Acid-test-Ratio-

This also termed as quick-ratio. It is determined by quick assets i.e. (cash, investment and debtors) by current liabilities. A quick ratio of 1:1 has usually been considered favourable.

(3). PROFITABILITY GROUP:

Under this group, there should be four ratios for analysed-

(a). Operating Ratio-

It is calculated by dividing the total operatin expenses by net sale and expressed as a percentage.

(b). Net Profit to Sale-

It is determined by net income after taxes to net sales for the period and measure the profit per rupee of sales.

(c). Coverage of Interest payment Ratio-

This ratio is determined by dividing interest charges on long term borrowings by interest. This ratio is used mainly as measure of the firm's ability to interest.

(d). Return on Investment-(ROI)-

It is very important ratio to examine the relationship between the size of operating profit and capital employed. For calculating this ratio the cost of borrowed capital and income tax are deducted from earnings.

calculated as-

(1). $\dfrac{\text{EBIT (Earning before Interest \& Taxes).}}{\text{Capital Employed}}$

(ii). $\dfrac{\text{Net Profit after preference dividend.}}{\text{Net Worth.}}$

(4). Turnover group-

There are three ratios included in this group-

(a). Assets turnover = $\dfrac{\text{Net sale}}{\text{Net fixed \& Current Assets.}}$

A high ratio suggested management ability to make good use of its tangible assets.

(b). Net Working Capital turnover Ratio:-

It is calculated by dividing net sale by net working capital. A very high ratio may signify dangerous situation of shortage of working capital.

(c). Inventory turnover-

It is calculated by dividing cost of goods

sold by ending inventory. Inventory turn-over is a valuable measure of selling efficiency and inventory quality. A low inventory turn-over may be due to a variety of reasons, like poor merchandise, over valuation of closing inventory etc.

RATIOS ANALYSIS OF UPSRTC.

Let us undertake the ratio analysis for judging the financial performance and position of UPSRTC. The most important ratio to analyse the profitablity of any concern is Return on Investment (ROI). From this point of view, we may first study the return on investment of UPSRTC, then other relevant ratios. The total investment of UPSRTC is increasing continuously, while the return on investment is decreasing. The total investment of UPSRTC was Rs.25.97 crores for the year 1972-73, whioe it increased to Rs.225.81 crores at the date of 31 Dec.1987. It may be seen from the table 5-5 given on next page-

Contd.

TABLE No.5-5-

STATEMENT SHOWING THE RETURN ON INVESTMENT IN UPSRTC.

Rs. in Crores

Year.	Total Invested Capital.	Gross Profit.	% of Profit on total Capital (Before Interest)	% of Profit on capital (After Interest).
1975-76	35.43	+ 0.80	+ 8.16	+ 2.28
1976-77	43.55	+ 1.21	+ 8.61	+ 2.78
1977-78	42.35	- 0.36	+ 5.99	- 0.85
1978-79	49.77	- 2.48	+ 3.27	- 4.99
1979-80	60.00	- 3.28	+ 1.12	- 5.46
1980-81	75.28	- 18.26	- 17.16	- 24.26
1981-82	85.43	- 12.90	- 6.83	- 15.10
1982-83	92.23	- 21.52	- 14.82	- 23.33
1983-84	107.11	- 16.64	- 7.41	- 15.54
1984-85	132.05	- 22.39	- 6.39	- 16.96
1985-86	163.55	- 17.53	- 1.74	10.72
1986-87	204.99	+ 2.52	+ 7.54	+ 1.23
1987-88 (Dec.1987)	225.81	+ 3.91	+ 7.58	+ 1.73

Source:- Annual Report of UPSRTC, Lucknow.

Note:- Data after 1980 are uncertified by A.G.U.P.

It may be seen from table No.5-5 that UPSRTC has been suffering losses, except in 1975-76 and 1976-77. The losses have been increasing from Rs.0.36 Crores in 1977-78 to Rs.17.52 crores in 1985-86. The loss shows the increasing trend except 1981-82 when fares were increased twice in a year. In 1981-82 the fare of buses had increased upto a hike of 40% This resulted in reduction of loss to Rs.12.90 Cr. But further increased to Rs.21.52 Cr. in 1982-83 and Rs.16.64 Cr. in 1983-84. The highest loss suffered by the Corporation was Rs.22.39 crores in year 1984-85. After suffering losses for a long period the Corporation gained a profit of Rs.2.52 Cr. in 1986-87 and Rs.3.91 cr. as on 31 Dec.1987.

The return in investment was positive only in 1975-76 and after then it was negative. The highest return on investment was negative in year 1980-81. But it has been positive in year 1986-87 and 1987-88. When Corporation gained some profit.

If we see the table, and analyse the ratio of Return on Investment, it can be easily said that the position of earning capacity of UPSRTC is very dangerous for the short and long-term creditors.

(1). CURRENT RATIO ANALYSIS OF UPSRTC.

As we have defined, the current ratio attempts to measure the ability of a firm to meet the current obligation or the liquidity of business. Theliquidity position of UPSRTC may be seen from the table No.5-6 given on next page:

TABLE No.5-6

STATEMENT SHOWING CURRENT ASSETS AND CURRENT LIABILITIES OF UPSRTC

(Rs. in Crores)

Year.	Current Assets.	Current Liabilities.	Current Ratio
1976-77	4016.98	3946.70	1.02 : 1
1977-78	4790.29	3806.80	1.26 : 1
1978-79	3638.70	3108.38	1.17 : 1
1979-80	3438.17	3258.69	1.05 : 1
1980-81	3495.94	3337.10	1.04 : 1
1981-82	3549.94	3540.10	1.00 : 1
1982-83	3593.98	3595.45	0.99 : 1
1983-84	5698.97	6917.90	0.82 : 1
1984-85	7683.97	9086.77	0.85 : 1
1985-86	9001.24	10277.90	0.88 : 1

Sources:- Compiled from Annual Reports on public enterprises of U.P. and Statement of Affairs of UPSRTC. 1985-86.

As indicated earliter, the current ratio of 2:1 indicates sound liquidity position of the concern, which is quite helpful in di.charging current liabilities without any difficulty. However this standard is not achieved in practice In case of UPSRTC we find that the best possible liquidity situation prevailed during 1977 to 1980-81 , when the current ratio was 1.02 : 1 , 1.26 : 1, 1.17 : 1, 1.05 : 1, and 1.05 : 1 respectively. It declined 1.00 : 1 in 1981-82, 0.99: 1 in 1982-83, 0.85 : 1 in 1984-85 and further increased in 1985-86 The current ratios of UPSRTC in 1985-86 was 0.88 : 1 . The management of UPSRTC must make efforts to keep the liquidity position sound. Because it is not quite satisfactory from 1981-82 to 85-86 as may be seen from table no.5-6.

(2). Quick or Acid Test Ratio-

The Acid-Test Ratio is a more severe and stringent test of a firm's ability to meet current obligation. It supplements the current ratio. It is shown as -

$$\frac{\text{Curr. nt Assets Less stock}}{\text{Current liabilities,}}$$

"A firm have a quick ratio of 1 :1 , where this is not, so a substantial" cash-hedge "is usually maintained. Because this ratio is calculated by curfent assets less stock after dividing by curr.nt liabilities, so it is necessary for us to analyse the stock position of UPSRTC, before analysis of Acid test ratio.

ANALYSIS OF STOCK

The position of stock of UPSRTC may be seen from the table 5-7 given on next page-

TABLE No.5-7

ANALYSIS OF STOCK OF UPSRTC

(Rs. in Lakhs)

Particulars	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-1986.
(1). Work in Progress (At estimated cost).	245.27	256.62	604.22	1117.89	1111.64	1138.06	1969.93	2581.93	2688.42
(2). Stores & Spare Parts(At cost).	485.30	888.50	694.45	840.28	924.30	831.87	981.85	1241.51	1311.90
(3). Building Materials (At cost)	819.57	844.57	18.87	5.82	-	-	-	41.71	43.92
Total:	1550.14	1989.69	1317.54	1963-99	2035.94	1969.93	2951.78	3865.15	4044.24

Source: Compiled from, "Handbook of U.P.State Public Sector, Enterprises, Various Annual Reports of U.P.S.R.T.C. and Statement of Affairs of UPSRTC 1985-86".

It may be seen from table No.5-7 that stock of spares parts and tools showed an increasing trend except in 1979-80 and 1982-83. It was Rs.888.50 lakhs in 1978-79, while it increased upto Rs.1241.51 lakhs in 1984-85 and Rs.1311.90 lakhs in 1985-86. Similarly, the amount of work-in-progress also showed an increasing trend, while the amount of Building material showed a decreasing trend. The amount of W.I.P. was Rs.245.27 lakhs in 1977-78 and increased upto Rs.2688.42 lakhs in 1985-86. The amount of Building material was Rs.819.57 lakhs in 1977-78 while it decreased Rs.5.82 lakhs in 1980-81 There was no any st ck of Building materials in years 1981 to 1983. If we calculate the proportion of stock to total assets, it is fairly high. We would discuss it in the next Chapter i.e. working capital management of UPSRTC.

TABLE NO.5-8

STATEMENT SHOWING ACID-TEST RATIO OF UPSRTC

(Rs. in lakhs)

Year	Current Assets	-	Stock	=	Liquid Assets	Current Liabilities	ACT.or Quick Ratio.
1977-78	4790.29	-	1550.14	=	3240.15	3806.80	084 : 1
1978-79	3638.70	-	1989.69	=	1649.01	3104.38	0.53 : 1
1979-80	3438.17	-	1317.54	=	2120.63	3258.69	0.65: 1
1980-81	3495.94	-	1963.99	=	1531.95	3337.10	0.43: 1
1981-82	3549.93	-	2035.94	=	1513.99	3540.10	0.42: 1
1982-83	3593.98	-	1969.93	=	1624.05	3595.45	0.45: 1
1983-84	5698.97	-	2951.78	=	2747.19	6917.90	0.40: 1
1984-85	7683.97	-	3865.15	=	3818.82	9086.77	-0.42 :1
1985-86	9001.24	-	4044.24	=	4957.00	10277.90	0.48: 1

(Source: Compiled from Statement of Affairs of UPSRTC and Annual Report on Public Sector Enterprises of U.P.

The general and recognised standard for judging the quck or acid-test ratio is that it is taken to be satisfactory if it is 1 :1. But, in practice, we do not find this standard in most of the concerns. In case of UPSRTG, the table No.5-8 shows, the liquidity position of Corporation was satistactory in 1977-78, 1978-79 and 1979-80, when quick ratio was 0.84 : 1, 0.53 : 1, and 0.65 : 1 respectively. In 1983-84, it has fairly lower and it changed from 84:1 in 1977-78 to 0.40 : 1 in 1983-84. In 1984-85 and 1985-86 it again increased.

CHAPTER- VI

WORKING CAPITAL IN UPSRTC

CHAPTER- VI

WORKING CAPITAL IN UPSRTC :

INTRODUCTION :

Capital may be broadly classified into two categories, viz., Fixed capital or Long-term capital; and working capital. We have already discussed about Fixed capital in the fifth Chapter. In this Chapter we would discuss about the working Capital with special reference to UPSRTC. Before analysing, the working capital management of UPSRTC, it would be necessary for us to understand the meaning, importance and size of working capital.

Working capital is required in every business concern for meeting day-to day expenses. It has been rightly stated that "The amount invested in current assets like raw materials, work in progress, finished goods, debtors, bills receivable, temporary securities etc.; cash and bank balances held for meeting routine expenditure is regarded as Working Capital or Current Capital. In a way it is a capital meant for short-term and is used for meeting, current liabilities in the ordinary course of business".

Working capital is classified into (a) gross working capital and (b) net working capital, Net working capital

is the difference between current assets and current liabilities while Gross Working Capital is the total of the current assets or that amount of funds invested in current assets employed in the business process. The concept of net working capital helps the management in looking forward for permanent sources of its financing.

The problem of working capital management can be examined under two sub-heads viz.-1 internal financing and external financing.We would be examing the internal financing aspect, which deals with determining the size of working capital in particular business.

TYPES OF WORKING CAPITAL :

There are mainly four types of working capital used in the business condems. They are as follows :-

(1) FIXED OR PERMANENT WORKING CAPITAL :

Permanent working capital is the minimum amount of current assets, which is needed to conduct a business even during the dullest season of the year. In other words, which is required at all times during the life of an enterprise. In a way it is permanently sunk in the business, like fixed capital which should

not be converted into cash in the normal course of business. Such minimum portion of working capital which becomes a fixed investment in current assets can be acquired through long term funds. The amount of permanent working capital could be varies from year to year, depending upon the growth of a company.

(2) SEASONAL WORKING CAPITAL :

Seasonal working capital is also called fluctuating or variable working capital. Seasonal working capital refers to the rest of the working capital remaining after the deduction of fixed working capital from the total working capital. It is of a temporary and variable nature and can be financed through short-term funds. A portion of this becomes significant during certain season as in c ertain business amounts the need for current assets varies from season to season.

(3) SPECIAL WORKING CAPITAL :

The special working capital refers to the amount of funds required to meet unforescable contingencies, for example huge funds are locked up in

inventories and book debts during slumps. Extra capital may also be required for meeting special orders.

(4) CASH WORKING CAPITAL :

Cash working capital is one which is calculated from the items appearing in the profit and less account. It shows the real flow of money and is considered to be the most realistic approach in working capital management.

IMPORTANCE OF WORKING CAPITAL :

Adequate working capital is as essential for business enterprise as adequate circulation of blood for human body. Lack of working capital creates many problems. For instance, fixed assets remain idle or underutilised. Failure to provide adequate working capital, is sure to prove as a very cost blunder in financial planning, Hence, working capital is regarded as one of the canditioning factors in the long run operation of a firm. Provision of sufficient working capital proves benificial in several ways which are as follows :-

(i) Goodwill of the Enterprise due to prompt payment of liabilities.

(ii) A greate, capability to the enterprise to explicit business opportunities like special orders, purchase of raw materials on concessional rates etc.

(iii) Reduction in the cost of producing goods due to purchase of materials at better terms.

(iv) Possibilities of successfully during the financial solvency of the enterprise.

(v) Possibility of making regular dividend payments promptly and others.

The importance of working capital in any industrial concern, therefore, need not be over emphasised. The existence for an edequate supply, carefully administered, can make substaicial differences between the success and failure of an enterprise. Even in a well established business with a long history of successful operation careful attention to the management of working capital can result in greater profitability. It is important therefore, for management to pay particular attention to the planning and control of working capital.

FACTORS DETERMINING WORKING CAPITAL :

The need for working capital varies with changes in the volume of business. A considerable proportion of

of current assets is needed permanently as fixed assets. More than one production cycle may be in process at one and the same time for, a subiness operates on a continuing basis. The corporate management has to consider the various factors in making decision regarding balances. Working capital is affected by the criss-crossing economic current flowing about the business. The nature of firm's activities, the availability of materials, tightness of money market and others, are all part of these effecting forces of working capital. However, the following factors as suggested by Prof. J. Prakash determine the amount of working capital.

(1) NATURE OF INDUSTRY :

The composition of an assets is a function of the size of a business and the industry to which it belongs. Small companies have smaller proportion of cash, receivable and inventory than large corporations. The difference becomes more marked in large corporations. A public utility concern for example mostly employs fixed assets in its operations, while merkandise departmental depends, generally, on inventory and receivables. Thus, working capital depends upon the nature of an enterprise considerably.

(2) DEMAND OF CREDITORS :

Generally, creditors are interested in the security of loans. They want their obligations to be sufficiently covered. They want the amount of security in assets which are greater than liability.

(3) CASH REQUIREMENTS :

Cash is one of the main items of current assets, which is essential for the successful operation of a production cycle. Cash should be adequate and properly utilized. It would be wasteful to hold excessive cash. A minimum level of cash is always required to keep the operations going. Adequate cash is also required to maintain good credit relations. Hence, cash requirement also determines the size of working capital.

(4) GENERAL NATURE OF BUSINESS:

The nature of business is an important factor which determines the level of working capital. They relatively lower in public utility concerns, in which inventories and receivables are rapidly converted into cash. However, the manufacturing organisations, face problems of slow turnover of

inventories and receivables and invest large amount in working capital.

(5) TIME FACTOR :

The level of working capital depends upon the time required to manufacture goods. If the time is larger, the size of working capital will be larger, Morever, the size of working capital depends upon the inventory turnover and the unit cost of the goods that are sold. The greater this cost, the higher the amount of working capital.

(6) VOLUME OF SALES :

. This is the most important factor, effecting the size and composition of working capital. A firm maintains current assets because they are needed to support the departmental activities which result in sale. The volume of sales and the size of the working capital are directly related to cash other. As the volume of sales increases, there is an increase in the investment of working capital.

(7) INVENTORY TURNOVER :

If the inventory turnover is higher the working

capital requirements will be lower. With a better inventory control, a firm is able to reduce its working capital. It should determine the minimum level of stock which it will have to maintain throughout the period of its operations.

(8) RECEIVABLE TURNOVER :

It is measured to have on effective control of receivables. A prompt collection of receivables and good setting facilities for payable result into lower working capital, requirement.

(9) BUSINESS CYCLE :

Business expands during the period of prosperity and declines during the period of depression. Consequently, more working capital is required during the period of prosperity and less during the period of depression.

(10) VALUE OF CURRENT ASSETS :

A decrease in real value of current assets as compared to their book value, reduces the size of the working capital. If the real value of current assets increases, there is an increase in working capital requirements.

(11) CREDIT CONTROL :

Credit control includes such factors as the volume of credit sales, the terms of credit, sales, the collection policy etc. A sound credit policy is possible for a firm to improve its cashflow and effects working capital.

(12) LIQUIDITY AND PROFITABILITY :

If a firm desires to take a greater risk for bigger gains or losses, it reduces the size of its working capital in relation to its sales. If it is interested in improving its liquidity it increases the level of its working capital.

(13) INFLATION :

As a result of inflation, size of the working capital increase in order to met requirement of the market. To some extent, this may be compensated by increasing the selling price during the period of inflation.

(14) SEASONAL FLUCTUATIONS :

Seasonal fluctuations in sales effect the level of variables working capital. Often the demand for

products may be of a seasonal nature. Yet inventories have got to be purchased during certain season only. The size of the working capital may be bigger than in other periods of year.

(15) PROFIT PLANNING AND CONTROL :

The level of the working capital is also decided by the management in accordance with its policy of profit planning, and control. A firm has to plan for a payment of taxes, which are an important part of working capital,management. Often the dividend policy of a corporation may depend upon the amount of cash available to it.

(16) CASH RESERVE :

It would be necessary for a firm to maintain some cash reserve to enable it to meet contingency payment. This would provide a buffer against abrupt shortage in cash flows.

(17) OPERATIONAL AND FINANCIAL EFFICIENCY :

Working capital turnover is improved with a better operational and financial efficiency of a firm. A greater working capital turnover, would be

reduce its working capital requirement.

(18) CHANGE IN TECHNOLOGY :

The technological developments related to the production process, have also a sharp impact on the need for working capital.

METHODS OF ESTIMATING WORKING CAPITAL REQUIREMENTS

Many business concerns have come to grief on account of inadequate working capital and many business units have suffered due to excessive provisions of working capital. For efficient management of working capital, it is necessary to ensure that it has not been circulating in excess nor it should be allowed to fall below a particular level of business operations. Therefore, it is necessary to keep a proper balance between there two extrences.

There are two methods, which are generally followed, in determining working capital requirement. They are as under :-

(A) Conventional Method

(B) Operating Cycle Method.

(A) CONVENTIONAL METHOD :

According to conventional method cash in flews and outflows are matched with each others.

(B) OPERATING (WORKING CAPITAL) CYCLE METHOD :

The operating Cycle is the length of time between a companys paying for materials entering into stock and receiving the inflews of cash from sales. The determination of operating cycle is helpful for control proposes with a view to improving working capital ratios.

MEASUREMENT OF WORKING CAPITAL :

Working capital balances are measured from the financial data. Generally, the working capital balance of a going concern has a positive value but often uses of working capital exceed the sources of working capital exceed the sources of working capital in certain periods. Changes in balances can be measured in rupee amounts and also in percentages by comparing current assets, current liabilities and working capital over a given period.

RATIO ANALYSIS OF WORKING CAPITAL :

The ratio analysis of working capitalcan be used

by management as a means of checking upon the efficiency with which working capital is being used in the enterprise. The most important ratios for working capital management are as follows :-

(A) Turnover of Working Capital for a Certain period =

$$\frac{\text{Net Sales}}{\text{Average Net Working Capital}}$$

(B) Current Ratio =

$$\frac{\text{Current Assets}}{\text{Current liabilities}}$$

(C) Current debt to tangible net worth =

$$\frac{\text{Current liabilities}}{\text{Tangible Net Worth}}$$

The above ratios have already been defined in Chapter No.5.

WORKING CAPITAL MANAGEMENT IN UPSRTC :

As we defined earlier in the chapter, Gross Working capital is the total of all the current assets, while net working capital is the excess of current assets over current liabilities. (Current assets are those assets which, in ordinary course of business, will be turned into cash

within a short time. As against these, the current liabilites are those liabilities intended at their inception to be paid in ordinary course of business within a reasonabely a short time (normally within a year).

For any financial manager, effective management of working capital is a difficult problem. We find similar situation prevailing in UPSRTC also. Working capital need of UPSRTC has been increasing regularly. It may be seen from the following table No. 6-1

TABLE NO. 6-1

Working Capital ofUPSRTC

(Rs. in lakhs)

Years	Current Assets	Current Liabilities	Net Working capital
1977-78	4790.29	3806.80	983.49
1978-79	3638.70	3104.38	534.32
1979-80	3438.17	2285.69	1152.48
1980-81	3495.84	2337.10	1158.74
1981-82	3549.93	2540.00	1009.93
1982-83	3522.01	2463.17	1058.84
1983-84	5681.96	3683.80	1998.16
1984-85	7683.98	5005.93	2678.05
1985-86	9001.24	5817.81	3183.43

SOURCE : Compiled from Annual Report ofUPSRTC
Note : (Provision Liabilities are not included in current liabilities).

It may be seen from table No. 6-1, we find that the current assets of UPSRTC increased continuously from 1979-80 to 1985-86. In previous two years it showed a decreasing trend. The current assets of UPSRTC was Rs. 4790.29 Lakhs in 1977-78, while it decreased to Rs. 3638.70 lakhs in 1978-79. But in year 1979-80, it again increased. The amount of current assets was Rs. 34 38.17 lakhs in 1979-80 and Rs. 3495.84 lakhs in 1980-81 and Rs. 3522.01 lakhs in 1982-83. At the end of March 1986, the current assets of UPSRTC increased upto Rs. 9001.24 lakhs. There was an increasing and decreasing trend of current assets of UPSRTC.

The current liabilities of UPSRTC was Rs. 3806.80 lakhs in 1977-78, which decreased to Rs. 3104.38 lakhs in 1978.79 and also showed in a decreasing trend upto 1982-83. The amount of current liabilities was Rs. 3683.80 lakhs in year 1983-84 and after 1983-84 it again increased to Rs. 5005.93 Lakhs in 1984-85 and Rs. 5817.81 lakhs in 1985-86. Hence, it is clear that there has been a fluctuating trend of current liabilities in UPSRTC.

After analysing the current assets and current liabilities of UPSRTC, we find that the working capital was Rs. 983.49 Lakhs in 1977-78 and decreased to Rs.534.32

lakhs in 1979-80. An increasing trend was found from 1979-80 to 1981-82. But after 1981-82 it went on decreasing. The working capital of UPSRTC was Rs. 1158.74 in 1980- 81 and Rs. 1009.93 in 1981-82, Rs. 1058.84 lakhs in 1982-83. The working capital of UPSRTC showed an increasing trend after 1982 and continuously increased to Rs. 3183.43 Lakhs at the end of 31st March 1986. The working capital turnover is improved due to better financial efficiency of UPSRTC.

REASONS FOR SUCH INCONSISTED GROWTH RATE IN NET WORKING CAPITAL OF UPSRTC :

(1) Constent increase in current assets in all years except 1980-81 at inconsistent rates.

(2) Current liabilities too had net shown consistent growth trends except 1984-85 and 1985-86 as the current liabilities considerably increased in the years 1984-85 and 1985-86.

(3) Increase in current assets was mainly due to frequent changes in spares and tools and constructional materials.

(4) Fluctuations in current Liabilities were mainly due to frequent changes in cash credit arrangement with

Banks, which played a very important role in financing the working capital.

GROWTH OF BUSINESS AND WORKING CAPITAL IN UPSRTC

The growth of business of a particular concern depends upon its output, sales, employment opportunities, capital structure etc. But specially in service industries just like UPSRTX, in a very ordinary sense, growth in a business can be measured by ascertaining growth in sales and services.

According to S.C. Kuchhal, " As a company grows, it is logical to expect that larger amount of working capital will be required. Though it is very difficult to draw up firm rules for the relationship between the growth in the volume of a company's business and the growth of capital in a going concern also shifts with economic circumstances and corporate practices, growth industries require more working capital them those that are static, other thing being equal".

The growth of business and working capital in UPSRTC has been measured by computing 'Multiple Correlation' between net working capital and sales in terms of servides.

and cost in terms of expenditure.

Multiple correlation is a measure of combined relationship of two or more dependent variables with the independent variable. The formula for calculating coefficient of multiple correlation is :-

Where =

x = Correlation

X = Dependent variable

Y = Independent variable

Z = Independent variable

For the purpose of this study the net working capital is the dependent variable and sale in terms of services and cost in terms of expenditure are independent variables. or,

X = Net working capital

Y = Sales in terms of services

Z = Cost in terms of expenditure

	Y (Income)	Z (Expd.)	X (Netw.c.)	$X-\bar{X}$ (dx)	dx^2	$Y-\bar{Y}$ (dy)	dy^2	$Z-\bar{Z}$ (dz)	dz^2	d x dg	dxdz
	2	3	4	5	6	7	8	9	10	11	12
.79	70.23	72.71	5.31	-10.65	113.4.	-42.07	1769.1	-54.11	2927.9	+ 448	+ 576
.80	83.23	86.51	11.52	- 4.44	19.7	-29.06	844.5	-40.31	1624.9	+129	+ 179
.81	92.31	101.96	11.58	- 4.38	19.2	-19.98	399.2	-24.86	618.0	+ 88	+ 109
.82	111.41	114.09	10.10	- 5.86	34.3	- 0.88	0.8	-12.73	162.1	* 5	+ 75
.83	110.66	132.27	10.58	- 5.38	28.9	- 1.63	2.7	+ 5.45	29.7	+ 9	+ 29
.84	128.73	145.37	19.98	+ 4.02	16.2	+16.44	270.3	+18.55	344.1	+ 66	+ 75
.85	140.93	163.32	26.78	+10.82	117.1	+28.64	820.3	+36.50	1332.3	+310	+ 395
.86	160.82	178.33	31.83	+15.87	251.9	+46.53	2355.2	+51.51	2653.3	+770	+ 817
8	89,832	10,1456	12,768		600.7		6462.1		9692.3	1875	2255

: Conpiled from with help of Annual Reports of UPSRTC H.O. Lucknow
Years- 1985- and 1986-87.

Solution =

$$\text{Average of } x = \frac{Ex}{n} = \frac{12768}{8} = 15.96$$

$$\text{Average of } y = \frac{EY}{n} = \frac{89832}{8} = 112.29$$

$$\text{Average of } z = \frac{Ez}{n} = \frac{101456}{8} = 126.82$$

$$x \text{ (X and Y)} = \frac{Ed \times dy}{dx2 \times dy^2} \quad \frac{1825}{600.7 \times 6462.1} \quad 0.93$$

$$x \text{ (X and Z)} = \frac{Ed \times dz}{d \times 2.\ dx^2} \quad \frac{2255}{600.7 \times 9692.3} = 0.94$$

$$x \text{ (Y and Z)} = \frac{Edy.dz}{dy^2\ dz^2} \quad \frac{7796}{6462.1 \times 9692.3} = 0.99$$

$$XYZ = \frac{x^2\ X\ Y + x^2 xz - 2\ x\ x\ y,\ x\ x\ z,\ x\ y\ z}{1 - x^2\ Y\ Z}$$

$$= \frac{(.93)^2\ (.94)^2 - 2\ (0.93)\ (0.94)\ (.99)}{1 - (.99)^2}$$

$$= \sqrt{.8693}$$

$$= 0.93$$

CORRELATION COEFFICIENT = + 0.93 :

Thus it is quite clear that there has been a very high degree of positive correlation, positive correlation refers to the movement of the variables in the same direction.

Considering the coefficient of correlation as + 0.93, the net working capital of UPSRTC was highly effected by the income and the cost in terms of expenditure.

PROBABLE ERROR :

Probable error tells us the limit within which the various values of the coefient of correlation of the various samples taken out the same group or the entire group will vary. If the coefficient of correlation is less than the probable error, the "x" is the insignificant. If the coefficient of correlation is more than six times to probable error, the correlation is decidedly significant. If the co efficient of correlation is more than three times but less than six times, the relationship is considered to be significant. Probable error of x is computed in the following manner "[1]

1. Asthana, B.N., Elements of statistics VII edition page-281, Chaitanya Publishing House Allahabad, 1976

Probable Error 'x' in UPSRTC

$$\text{Probable error } x = 0.6745 \times \frac{1-x^2}{n}$$

Probable Error in UPSRTC

$$= 0.6745 \times \frac{1-0.93^2}{8}$$

$$= 0.6745 \times \frac{0.065}{2.83}$$

$$= 0.018$$

Hence Probable error if x in UPSRTC is less than six times. and relationship is considered to be significant.

If we analyse the coeffecient on the basis of above norms suggested by Prof. B.N. Asthana, in case of UPSRTC, the size of net working capital was very significantly dependent upon sales and services.

ADEQUACY OF WORKING CAPITAL IN UPSRTC :

There is standard measurement to Judge the adequacy of working capital, However, it can be judged in terms of its relation with firms debts. Generally, current ratios and quick ratios are studied to establish such relationship. The ratio of current assets to current

liabilities is known as working capital ratio or liquidity ratio. Current ratio is an index of the condern, while acid test ratio fefers to proportion of firm's current debts and liabilities and the liquid part of firm's current assets.

Current ratio is computed by dividing the total current assets by the total current liabilities. This ratio shows the number of times the current assets are able to pay current liabilities. A current ratio of 2:1 is considered as satisfactory. However, the size of working capital depends upon many factors, as we have mentioned earlier, hence a common current ratio can not be treated as optimum for all types of business-industrial and trading concerns.

" Current ratio measures the past, it can not measure the future salvency of the firm. If all current assets were liquidated in order to meet firm's obligation the firm would have no working capital to carry on its operations.

Current ratio analysis of UPSRTC have already been undertaken in former chapter i.e. Longterm financial management of UPSRTX. Here, we would analyse only the

adequency of working capital of UPSRTC.

TABLE - 6-3

Adequacy of Working capital of UPSRTC (Optimum Current Ratio 2:1 ± 5%)

Year	Current Ratio	Adequate	Inadequate	Excess
1976-77	1.02	-	9	-
1977-78	1.26	-	9	-
1978-79	1.17	-	9	-
1979-80	1.05	-	9	-
1980-81	1.04	-	-	-
1981-82	1.00	-	-	-
1982-83	0.99	-	-	-
1983-84	0.82	-	-	-
1984-85	0.85	-	-	-
1985-86	0.85	-	-	-

Note : based on Table No. 5-6

On the analysis of the working capital of UPSRTC, we find that it has been inadequate during all the years from 1976 to 31st March 1986. Its reason is that the UPSRTC require heavy investment infixed capital and has

a low operating cycles. This corporation is having long gestation period, As it is a service industry, hence its working capital requirements is comparatively lower than a commercial enterprise. It gets working capital funds from the government, financial institutions and not by issue of its shares among the public. Therefore, the corporation intends to maintain a very low margin of safety to liquidate shortterm obligation and face much problems in raising funds. It is clear from table no. 6-3 that size of working capital was inadequate during all the years and the corporation did not maintain optimum level of working capital.

FUND FLOW ANALYSIS OF WORKING CAPITAL IN UPSRTC :

Fund flow analysis is an effective management tool to study how funds have been procured for the business and how they have been employed. The s tatement of variations in working capital is based on the same approach and is used for the preparation of funds flow statement. This technique helps in analysing the changes in working capital between two dates. The comparision of current assets and current liabilities, as shown in the balance sheet at the end and at the beginning of a specific period, shows changes in each type of current assets. In

other words, it shows the sources from which working capital has been obtained.

NATURE OF SOURCES OF FUND :

The following changes representing sources are :

(a) Decrease in assets - by sales, depriciation better control of inventory and debtors, reduction in cash balance ;

(b) Increase in liabilities - by addition to current liabilities and provisions, increase in long term debts issue of debenture.

(c) Increase in net worth- by retention of earnings, issue of addition shares. etc.

The following changes showing the uses of funds are :-

(a) Increase is assets, pilingup of sundry debtors addition to investment.

(b) Decrease in liabilities. as pay off a long or short term loans, reduction or creditors.

(c) Decrease in network, increasing of losses divident payment in period of no or low profit etc.

In case of UPSRTC the changes of working capital is clear through the fund oflow analyses, It may be seen from the following statement, of comparative balance sheet for the ended year 31st March 1985 and 1986.

UTTAR PRADESH STATE ROAD TRANSPORT CORPORATION BALANCESHEET

AS ON 31 MARCH

		Rs. in Lakh
Capital and liabilities	31.3.86	31.3.85
Capital	10,316.50	8,427.72
Loans	7,105.12	5,965.26
Reserve and funds	11,358.07	10,886.18
Deposits (Included provision Liabilities).	150.19	145.27
Provision	54.89	42.74
	39,262.67	34,553.94
Properties and Assets :		
Fixed assets	18,174.30	16,865.69
Investment	80.17	80.17
Current assets	9,001.24	7,683.97
Inter office adjustment	326.68	-
Net deficiency	11,680.28	9,924.11
	39,262.67	34,553.94

TABLE NO- 6-4

Solution

Statement of sources and uses of ~~Binds~~ FUNDS

in UPSRTC in 1986 over 1985

Rs. in Lakhs

Sources	Rs.	Uses	Rs.
Increase reserve and funds	471.89	Increase in fixed assets (1308.61)	1308.61
Increase in deposits	4.92		
Increases in Loans	1139.86	Increase in current Assets (inventories)	326.68
Increase in current Liabilities and Provision liabilities	1191.13	Increase in inter-office adjustment	
Increase in Net worth		Increase in Net Revenue (Loss)	1756.17
(A) Capital	1888.78		
(B) Provision	12.15		
	4708.73		4708.73

It may be seen from table no. 6-4 that total increase in liabilities of 31st March 1986 over 1985 was Rs. 4708.73 lakhs as sources of funds and similarily the total increament of assets included net deficiency was Rs. 4708.73 in UPSRTC.

If we analyse the changes in net working capital for the same period, it will be necessary for us to prepare refined statement of sources and uses of funds in UPSRTC for the period.

TABLE No. 6-4 A

Refined statement of Sources and Uses of Funds

Rs. in lakhs

Sources	Rs.	Uses		Rs.
Addition in Net worth		Addition to Net		
Capital	1,888.78	fixed assets		1,308.61
Provision	12.15	Net changes in working capital-		
		Addition to current assets	1643.95	
		Addition to current Liabilities	1051.63	592.32
	1,900.93			1,900.93

Calculation of Net working capital :

Addition to Current Assets :

A. Current Assets- 13.17.27

(Debtors, Building materials workin progress etc.).

If we analyse the changes in net working capital for the same period, it will be necessary for us to prepare refined statement of sources and uses of funds in UPSRTC for the period.

TABLE No. 6-4 A

Refined statement of Sources and Uses of Funds

Rs. in lakhs

Sources	Rs.	Uses	Rs.
Addition in Net worth		Addition to Net	
Capital	1,888.78	fixed assets	1,308.61
Provision	12.15	Net changes in working capital-	
		Addition to current assets 1643.95	
		Addition to current Liabilities 1051.63	592.32
	1,900.93		1,900.93

Calculation of Net Working capital :

Addition to Current Assets :

A. Current Assets- 13.17.27

(Debtors, Building materials workin progress etc.).

	B.F.		1317.27
B. Inter office adjustment			326.68
Net Current Assets.			1643.95

Addition to current Liabilities :

Sundry creditors	1191.13	
Interest payable		
add Provision increase	471.89	
,, Short term deposits	4.92	
,, Increase in loans	1139.86	
Total liabilities	2807.80	
Less increase in deficiency-	1756.17	1051.63
Changes in Net working Capital		592.32

It may be seen from table No. 6.4 A., that the net working capital for the year 1986 was Rs. 592.32 lakhs, which was must than th t of 1985. If we analyse the calculation of net working capital shown in the statement, it is clear that the decrease in net working capital is due to dificiency in revenue for the year 1986. Another factor which has effected increase in net working capital was long terms loan taken by UPSRTC for the year ended 31st March 1986 as cash creuit and public deposits etc. The devit balances of interoffice adjustment also effected the net working capital in UPSRTC, which amounted to Rs. 326.68 lakhs for the balances of debtors building materials, Working-progress

and total balances of spareparts increased during the same period. All these factors effected the net working capital in UPSRTC. The net working capital for the period was Rs.592.32 Lakhs as clear in table No. 6-4A.

STRUCTURAL DETERMINANTS OF WORKING CAPITAL IN UPSRTC :

Current and quick ratios indicate the relationship between the firms current liabilities and current assets. But these ratios do not assess the management of the components of current assets. Hence, it is necessary for us to analyse the main structural determinants of working capital in U.P. State Road Transport Corporation. Generally, cash, inventories and receivables are the main determinants of working capital.

INVENTERIES :

Inventeries are treated as the most important single current assets in the assessment of working capital. Inventory may be defined as the goods held for resale by the firm Inventory, generally includes raw materials tools and spareparts, workin-progress (current) and finished goods stock.

Inventories, measured by rupee value, constitute the major element in the working capital in business undertak-

ings. Control of inventories is often most important problem in the management of capital. Because, excessive investment in inventory, in relation to requirement, will not only effect the cash cycle badly but also the liquidity position of firm, In contrast, lack of inventory may adversely effect the production activities of the firm. A firm, ther fore is required to maintain the optimum level of inventory. The financeial experts suggest that inventory must be maintained at Economic Order Quantity (E.O.Q.) level E.O.Q. suggests that inventory level is potimum, where total inventory cost is minimum and when order and carrying cost of inventory is equal.

" There are several factors which influence the amount of funds that a firm has invested in inventories at a particular time. Various processes directly effects amount of investment. The management ability to predict the forces that may cause disruptions in the flow of inventories such as strike and demand fluctuations."

The size of inventory and their percentage to total current assets of UPSRTC may be seen from the following table No. 6-5.

TABLE NO 6-5

Statement sharing the size of inventory in UPSRTC

(Rs. in lakhs)

Year	Total Current assets	Inventory	% of inventory to total C.A.
1977-78	4790.29	1989.69	42%
1978-89	3638.70	1317.54	36%
1979-80	3438.17	1958.17	57%
1980-81	3495.84	2035.94	58%
1981.82	3549.93	1969.93	56%
1982-83	3522.01	1987.01	57%
1983-84	5681.96	3646.24	64%
1984-85	7683.98	3865.14	50%
1985.86	9001.24	4044.23	45%

Source : Data Received from UPSRTC, Accounts Deptt.HQ. Lucknow.

It may be seen from above table no. 6.5, that in the year 1977.78, the percentage of inventories was 42% to total current assets. which decreased in 1978-79. But after 1978-79, the percentage continuously increased except in 1985-86. Hence, it may be seen from table that, the inventories represented more than half of the total

ranged between 35 per cent to 50 per cent in same years. Therefore inventories were found to be the largest single component of current asset as it is clear from above table.

OTHER CURRENT ASSETS IN UPSRTC :

Besides inventories, the UPSRTC had also invested a part of its fund to acquire few more current assets. These assets are : accounts receivables, cash, shortterm investment, loans and advances to staff and others etc. These assets for the purpose of working capital may be seen from the table No. 6-6.

TABLE NO. 6-6

Statement showing working capital in UP SRTC

(Rs. in lacs)

Particulars	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-
(A) TOTAL CURRENT ASSETS								
(1) Debtors	1529.46	1393.91	1480.00	1460.00	1580.00	1535.00	2512.13	3246
(2) Investment (Accrued interest)	-	-	-	-	-	-	34.89	34
Total (A)	1529.46	1393.91	1480.00	1460.00	1580.00	1535.00	2547.02	3281
(B) STOCK :								
(1) Raw materials	-	-	-	-	-	41.70	43.92	45
(2) Work-in-progress	245.27	256.62	604.22	561.44	650.95	1179.88	2081.83	2688
(3) Finished goods	-	-	-	-	-	-	-	-
(4) Spare parts	485.30	888.50	694.45	840.28	424.30	854.45	1241.51	131[illegible]
(5) Constructional Materials	819.57	644.57	188.87	415.20	530.48	-	-	-
(6) Others	-	-	-	-	-	1111.64	1138.06	113[illegible]
Total (B)	1550.14	1789.69	1487.54	1816.92	1605.73	3187.67	4525.32	517[illegible]

Table Con

Particulars	YEARS 1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-
(C) CASH AND BANK BALANCE :								
(1) Fixed Deposits	-	-	-	-	-	-	-	-
(2) Others	159.78	30.99	331.96	76.63	131.16	704.59	337.09	173.
Total (C)	159.78	30.99	331.96	76.63	131.16	704.59	337.09	173.
(D) LOANS AND ADVANCES :	399.32	223.58	196.34	196.38	205.12	254.70	274.55	367.
Grand Total (A+B+C+D)	3638.70	3438.17	3495.84	3549.93	3522.01	5681.96	7683.98	9001.
Less total current Liabilities	3104.38	2285.69	2337.10	2540.00	2463.17	3883.80	5005.93	5817.8
= Working capital	534.32	1152.48	1158.74	1009.93	1058.84	1998.16	2678.05	3183.

Note : Provision Liabilities are not included in Current Liabilities.

Source : Compiled with the help of various annual reports of UPSRTC and statement of financial performance of UPSRTC year 1985 and 1986.

Itemwise position of working capital in UPSRTC may be seen from the table no. 6.6. Following inferences can be drawn from the table no. 6-6.

1. Debtors of UPSRTC increased from 1983-84 to 1985-86 the total debtors for the year 1983-84 was Rs.1535.00 lakhs while it increased to Rs. 3281.59 Lakhs in 1985-86 which was nearabout 29% of total current assets. It is also clear that the total debtors effected net working capital substantially.

2. The stock position also showed an increasing trend The amount of work-in-progress was Rs. 245.27 in 1978-79 while it continuously increased to Rs.2081.83 Rs. 2688.42 lakh in 1984.85 and 1985.86 respectively. Similarly, the amount of spare parts also showed an increasing trend except in 1981 and 1982.83. Total spare parts were Rs. 485.30 lakhs in 1978.79 while it increased to Rs. 1241.51 lakhs, Rs. 1311.89 lakhs in 1984-85 and 1985-86 respectively. But the cost of building material showed decreasing trend. Total stock position during all the years was near about 50 to 60% in range to total current assets. It is not working to the norms of stock to net working capital as advised by financial experts.

3. Total investment in cash by UPSRTC during all those years was near about the norms suggested by Gutheman and Daugall.

Gutheman and Daugall have suggested that "Business firm should keep its cash and near cash reserves below the requirement of one month normal expenditure. If cash and near cash reserves happence to be more than this limit it should be taken for granted that excessive cash is being carried by the corporation or firm".

5. Total loans and advances given to its staff, were really in large amount. Total advances taken by staff was Rs. 399.32 Lakhs in 1978.79 while it decreased to Rs. 223.58 Lakhs in 1979.80. Although the advances showed a decreasing trend yet it neglected the norms of advances to total net working capital Because loans and advance are also in the category of near cash reserves hence, if we add the cash and near cash reserves in terms of loans and advances. It not according to the norms suggested by Gutheman and Daughter. Hence, the investment in cash was not found to be satisfactory in UPSRTC.

CHAPTER VII

A CRITICAL APPRAISAL OF FINANCIAL PERFORMANCE OF UPSRTC

A critical Appraisal of Financial Performance of UPSRTC

INTRODUCTION :

Sound financial management is pre-requisite for any business enterprise however, financial performance, as desired, depends upon variety of factors Walker has rightly stated that " The core of the financial management is planning and co-orientation. As finance touches almost all the functions of business and all business decisions have financial implications , the efficiency and success of the business lie in co-ordinating all such production and distribution functions and decisions".[01]

The objective of financial planning is to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. It helps to management to avoid waste. It is the primary duty of the management to plan inflow and outflow of dunds. The most important aspect of financial planning is to plan stage fore starting the project and at laster stage for expansion".

01. Walker, Ernest W. and Baughan, William, Financial Planning and Policy, Harpet & Row New York, 1964, Page-4.

The problem of appraisal requires laying down suitable standards of performance and of indicating yardsticks to assess how actual performance compared with what is estimated. For a proper appraisal it is essential that government make a general statement of policy of the financial and other obligations of the various public enterprises. It is as necessary to formulate the financial framework for each enterprise as it is to prevent unfair criticism of enterprises in the public sector.

To make a fair assessment of the working of the public enterprises, it is important to draw a line of demarcation between the responsibility of the management and the Government". Government exercises a variety of controls over a public enterprises and the management has to function within the framework of these controls. It will thus, be fair to judge the performance of the management in the light of these constraints on its actions. It has been rightly stated that the performance of a public enterprise should be evaluated in the term of success achieved by the management in the following spheres and in the order indicated below :-

(i) Furthering of the non-commercial objectives of the enterprise as specified by the Government.

(ii) Furthering of the commercial objectives of the

enterprise and maximisation of profits subject to above.

(iii) Improving the quality of products and services and

(iv) Effecting economy and efficiency in the use of resources as men, materials and money".

To a certain extent, there is inter dependence between some of the above criteria. The test of profitability has been put second to that of the fulfilment of non-commercial objectives, since public undertakings aree xpxcted to be run in the collective interest outer than mere profit. Hence, return on investment (ROI) is not an adequate measure for judging the performance of public sector undertakings.

For the proper functioning of any enterprise, it is essential that the management lay emphasis on measuring the efficiency of its operations. Each undertaking must have an adequate apporatus for regularity exercising efficiency control. The principal elements of such an efficiency control system consist of performance-budgeting cost accounting, material management etc.

A distinction ~~by~~ has to be made in evaluation of the perfomance of private sector enterprises to those of

purlic enterprises. And, it has been Mightly emphasised that" In judging the performance of public enterprises it is important to bear in mind certain features which distinguish them from the enterprises in provate sector. Though they are enjoined to observe busuness and commercial principles, the profit motive can not be such an overriding factor in their case, as it is in private enterprises. For example location of project in backward areas or operations of domestic air services on uneconomic routes indicate that public enterest rather than profit motive is the directing factor. Public sector undertakings also face problems in securing managerial personnel of high quality. In beginning most of the managerial personnel in these undertakings came from government Departments and not from the industrial and commercial fields. The terms and conditions of service in these undertakings had to bear a relation to those prevailing in the Government Department".

This made it difficult for them to procure the services of persons well-versed in management skills.

FINANCING OF CAPITAL

There are many sources and arrangements to finance the capital requirements, which one of the alternative arrangements is best, depends opon operational circumstan

-ces, ownership and nature of the capital requirement. In-case of private undertakings besides internal sources, they can approach various money and capital market for financing the capital. The private enterprises can issue debentures, showes and can accept loan from financial institutions, deposit and loans from public.

The public enterprises normally do not issue shares to the public and obtain loan from them. Directors of public enterprises can not easily approach with bankers and financial institutions to finance their capital requirements. Moreover, the Government has got the ultimate power to determine the source of financing the capital. The public enterprises can not easily make use of its internal sources because during the initial period of the enterprises , internal sources are not available and for public enterprises gestation period is very high. Hence during gestation period no internal fund except depreciation is available to finance the capital. Moreover, once a public enterprise starts earning profits, the method of appropriation of profits totally depends upon the Government's policy.

Prof. Kuchhal has stated that " The surplus expected from public enterprises as a source of funds has assumed a great importance, with the rise in investments in public

sector during five year plans. Surplus means the balance of resources expgcted to be available with the enterprise after providing for operational chargs, normal replacement. interest payments and dividends"[01]

FINANCING OF CAPITAL IN UPSRTC :

The authorised capital of the corporation is not clear but the paid up capital upto 1986-87 stood at Rs. 14,471.32 lakhs. All the shares are owned by the state and Central Governments. The total Government investment in UPSRTC in Rs. 14,671.32 lakhs as on 31st March , 1987, The capital position of the corporation is detailed below in the table No. 7-1.

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01. Kucchal S.C. " Financial Management on Analytical and Conceptual Approach", Chaitanya Publishing House, Allahabad 1982 P. 534.

Table 7 (i)

(Rs. in lakhs)

Statement showing capital Analysis of UPSRTC

Particulars	1983-84	1984-85	1985-86
Capital employed	10706	11537.00	14671.32
Gross Block	17842	20227	23336
Net Block	5072	6380	17718
Working capital	1212	1220	1499
Net worth	-	-	-

Source - Complied with the help of Annual Reports of UPSRTC

Note: (1) Capital employed represents net fixed assets plus working capital.

(ii) Net worth represents paid up capital plus reserves and less intangible. assets plus loans.

(iii) Working capital indicates gross working capital.

It is clear from the foregoing analysis that the corporation depends upon Governments policy for supplying capital. The capital has been provided by the Government in the form of equity capital and loan. It is seen that funds available from internal sources have negligible

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contribution in the formation of assets. The major source of internal finance is the for depriciation . for example in 1985-86 funds amounting to Rs.13630 lakhs against Rs.8308 lakhs in 1981-82 from the internal resources were utilised for gross fixed assets. Reinvestment of depriciation reserve does not provide for growth rather it can be termed as replacement investment. The use of depriciation fund for other than capital formation or replacement investment is never desirable According to M. Mohistim" Such internal sources constitute 28.3% of financing assets formation in public sector, whereas in private sector the ratio is 69.9%. This shows that there is scope for the public sector undertakings for utilising the depriciation fund as replacement investment" [01]

It may be also observed that maximum debt equity ratio maintained by the corporation in 0.95: 1 . The public sector undertakings work under a prescribed

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01. Mohshin M. "Financial planning and control" Vikas Publishing House New Delhi, 1977 page - 113.

standard of 1 : 1 on the other hand, private sector undertakings at an average have a debt equity ratio of 3 : 1 This explains the fundamental difference in their approach in evaluating risk and relating it with the cost of capital. The former Union Finance Minister Mr. H.M. Patel appears to be in favour of a "debt equity ratio of 2: 1 for public sector undertakings as the ratio of 1 : 1 is unrealistic" 01.

The Administrative Reforms Commission has recommended a liberal policy in this respect for all the undertakings". It is suggested that corporation should try to take steps in this direction of having debt equity ratio of a 2: 1 " 02

In private enterprises, the entsepreneurs seek to establish optimum capital structure with proper combination of debt and equity with a view to minimise the cost of capital and maximise the value of shares. The cost of capital is starting point for profit planning It also serves the basic measure of financial performance. White designing capital structure in public sector, this

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01. The Economic Times,Calcutta, August 18, 1977

02. Administrative Reforms Commission, Report on public sector undertakings, Oct.1967, pp. 47-48.

capital cost and return factors should be taken into account, Dr. M.Mohishin suggested "Assets should be acquired when expected return exceed cost of funds by a margin to compensate for the degree of risk invalved".

Generally, this standard is not followed and in public sector units capital structure is the result of an adjustment between the enterprise and the Government. It is a compromise without applying any scientific technique. This is, because public enterprises easily get capital from the Government and they are not expected to move in the capital market. In case of UPSRTC, it may be seen from the table no. 7-1 that it get capital from the State Government as well as Central, whenever it approache for the same. Frequent conversion of loan into share capital is a regular feature. Concession in deferring payment of loans and interest is often allowed. Thus everything is so easy that it does not bother for adequate return on capital as is evident from accumulated losses. If the corporation approach the Government for fund for meeting the expenses of new purchases of correct estimate of the cost of equity and expected return on capital.

It is also evident from the preceding table showing capital analysis that the working capital employed in UPSRTC, constitutes, on average 6 months

production (service) at cost. "It appears to be excessive and there is need for rational planning of the working capital. An excessive investment in working capital lowers down the productivity as the ration of working capital to fixed capital becomes disproportionate. It should also be kept in mind that under investment in working capital retards the rate of return on capital invested by preventing its role, to enterprise, preparation of a working capital budget ascertaining the future requirement of working capital and necessary plans to mee the requirement is an important task for the management."

It may be observed from the review of the financial position which has been undertaken in the preeceding pages that the financial performance of UPSRTC, presents a disheartening picture. It has accumulated huge losses. In 1987-88 it earned a nominal profit of Rs.252.17 lakhs for the first time of its existance.

Cost Analysis of UPSRTC

Expansion and growth of any undertaking depends on the availability of adequate finance at reasonable cost. Thus upon careful planning and wise handling of

finance depends the ultimate success of any enterprise. For manufacturing and selling a product or service, every business has in our costs. Some of these are fixed and other variable. "There is a growing complexity of costs incurred by a enterprise in its efforts to attain sales or service volume that can permit a satisfactory level of profits."

This is equally true, in case of public enterprises, no doubt, state enterprises are not generally and necessarily run for making profits but for other considerations like public service and welfare. Yet even the state would not, unless the enterprise is of some special characteristic, be able to run the same under continued losses. The principal test of the efficiency and performance of an undertaking is profit and profit depends upon the sales, services and cost volume.

As Galbraith puts it " If I had to lay down a measure for performance for the publickly owned corporation in the developing country, it would be the earning that it provides to put into its own expansion. They should be growth oriented and should provide resources for development. Thus the important question is whether public enterprises recognise the task of enforcing efficiency

and economy while managing their finances".[01]

The cost control forms an integral part of managament. "The basic objective of expenditure control all these years has been to limit actual expenditure within the amounts provided in the budget under the several heads and units. The need for the maximisation of benefits by prudent and economical expending is now greater than ever before".

The cost analysis may be seen from the table No. 7-2.

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01. Galbraith,J.B."Economic Development in perspective". Orient longman Ltd. Bombay Calcutta,New York, page - 93.

TABLE NO.-7-(2)

Statement showing cost Analysis of UPSRTC (Rs. in lakhs)

Particulars	82-83	83-84	84-85	85-86
1. Personnel :				
(a) Traffic staff	2128.85	2316.30	3423.18	3533.66
(b) Workshop and maintenance staff	749.04	806.95	868.44	979.59
(c) Other staff	236.54	450.56	381.84	387.41
(d) Staff welfare GPF.	512.50	518.49	929.78	891.11
Total (1)	3626.93	4092.30	5603.24	5791.77
2. Fuel	2996.16	2983.16	2763.62	3176.96
3. Lubricants	236.14	291.83	326.03	338.15
4. Autospareparts	591.75	692.41	638.86	815.10
5. Tyres & Tubes	867.31	810.30	475.31	1061.98
6. Batteries	39.42	43.62	38.70	47.41
7. Autostores	39.42	36.55	34.67	37.70
8. Other stores	236.54	212.64	222.27	347.06
9. M.V. Taxes	433.65	454.21	314.60	333.20
Total (2 to 9)	5440.39	5524.72	4814.06	6157.56
10. Interest :				
(a) Interest to state govt.	827.89	19.00	357.19	440.24
(b) ,, ,, Central Govt.	-	71.00	218.33	157.90
(c) Interest on borrowings	-	1001.03	819.38	869.26
Total (10)	827.89	1091.03	1394.90	1467.40
11. Misc & other Maintenance charges	236.54	202.87	271.19	367.41
12. Depriciation on (Current & Fixed Assets)	1261.53	1316.92	1395.90	1829.38
Grand total (1 to 12)	1,1392.28	12227.84	13479.29	15613.52

Source - Compeled with the help of annual report of UPSRTC, Year 1985-86-87.

It may be seen from table No. 7.2 that the various items of cost are continously increasing. The total cost, on personnels salary and wage were Rs. 3626.93 lakhs in 1982-83 while it increased to 4092.30 lakhs in 1983-84 and Rs. 5791.77 lakhs in 1985-86. It is to be noted this increase in wages and salary cost was witnessed without any remarkable addition in labour fore. The increase in wages cost was caused by upward revision of the wages and salary of the employees, thus increasing the cost of service and reducing the margin of profit. Similarly, miscellaneous and other trend, which indicates that a lot of capital is locked in this item, which is the symbol of bad management, Hence it is suggested that the corporation should be established cost control department for efficient running of its services.

REVENUE ANALYSIS OF UPSRTC :

Although the corporation has been incurring losses due to increasement of costs yet the revenue earned by it has been increasing steadily.

An attempt has been made for Revenue analysis of UPSRTC through the following table 7-3.

TABLE-7.3

Statement showing P & L. A/C for the year ended

Particulars	31.3.85 Total Rs. (inlakh)	%of each on Total	31.3.86 Total Rs. (inlakh)	% of each item on total
What the corporation Earned :				
1. Traffic Revenue				
(a) Passangers	13504	95.81	15368	95.51
(b) Contract service	141	1.00	105	0.65
(c) Other contracts	152	1.07	148	0.91
2. Net workshop operation	-	-	17	0.11
3. Income from -				
(a) Advertisement	7	0.05	7	0.04
(b) Canteen	51	0.36	53	0.33
(c) Profit on sale of vehicles	160	1.14	308	1.91
4. Interest	5	0.04	3	0.02
5. Other receipts	75	0.53	69	0.43
6. Excess Provision written	-	-	12	0.08
Total Income	14095	100%	16090	100%
What the corporation Expended				
1. Traffic staff	6074	37.14	5598	31.37
2. Repairs & maintenance	2717	16.62	3674	20.58
3. Powers	2764	16.90	3177	17.80
4. Licence & Taxes	315	1.93	333	1.87
5. Welfare Exp.	891	5.45	930	5.21
6. General Admin.	701	4.28	824	4.62
7. Depreciation	1396	8.54	1829	10.25

Table Contd...

8.	Interest on capital	819	5.01	869	4.87
9.	Other charges	676	4.13	612	3.43
	Total	16353	100%	17846	100%
Net Profit/Loss		-2258		-1756	

Source - Compiled from the annual reports of UPSRTC H.O. Lucknow 1986-87.

It is evident from the table No. 7.3 that within aperiod of two years the income from all sources were near about Rs. 31 Cr. while in the same period expenditure side is faster growth on repairs and maintenance, of the buses and other vehicles which increased from Rs. 2717 lakhs to Rs. 3674 lakhs. It is to be noted this increase in repairs and maintenance was witnessed without any remarkable addition in the capacity of earnings of buses. It is also remarkable that the increase in welfare expenses and maintenance were caused by carelessness of staff thus increasing the cost of service and reducing the margin of profit. If the corporation is to earn a profit and wipe out the losses already accumulated it will have to reduce the margin of capital locked in work-shop. The corporation can also reform its financial position by regularising the services in all routes and the employees understood their responsibility.

APPRAISAL OF FINANCIAL PERFORMANCE OF UPSRTC :

As we have early indicated that the most important aspect

of financial planning is to plan capital expenditure. Capital is needed in the initial stage for strarting the corporation. The financial position of the UPSRTC is summarised here in table No. 7.4 under broad headings for a period of the 5 yr. ending on 31st march 1986.

Table No. 7.4

Statement showing Financial Position of UPSRTC

(Rs. in lakhs)

Particulars	1881-82	1982-83	1983-84	1984-85	1885-86
Authorised share capital	-	-	-	-	
(A) Resources Available					
i) Paidup capital	4697	6525	7128	8316	10316
ii) Loans					
a) State Govt.	2698	1676	1256	2135	2066
b) Central Govt.& others	2080	2310	3613	4042	4949
iii) Internal resources :					
a) Specific Reserve	113	113	113	113	113
b) Free Reserve	-	-			
c) Depriciation	83.08	9469	10601	12001	13630
Total (1+2+3)	7896	20093	22714	26607	31054
(B) Resources Utilised :					
1. Gross Block	14896	15854	17842	20227	23336
2. Assets under construction	708	466	419	419	419
3. Net working Assets	1010	1330	1212	1220	1499
4. Investment	92	92	81	81	81
5. Deficit	1190	2351	3160	4660	5719
Total (1 to 5)	17896	20093	22714	26607	31054

Table contd.

(C) Operational Results :

Particulars	81-82	82-83	83-84	84-85	85-86
1. Turnover/ operating Income	11178	11051	12873	14127	16001
2. Total Expendi-ture	12468	13203	14537	15693	17061
3. Profit/Loss	(-)1290	(-)2152	(-)1664	(-)1566	(-)1060

Source - A hand book of UP State Public Enterprises Sarbajnik Udyam Bureau U.P. 242 Jawahar Bhawan/Lucknow (U.P.), 1987.

It may be observed from the table No. 7.4 showing the financial position of UPSRTC, that its financial position and performance is quite unsatisfactory. The accumulated loss incurred by the corporation upto 1985-86 ammounted to Rs. 7,732 Lakhs as against paid up capital of Rs. 36,982 Lakhs. It may also be seen that the expected profitability of corporation is very low and even the moderate expectations have not been fulfilled. Though, the losses of corporation shows a decreasing trend yet the overall position of the corporation was unsatisfactory and the planning section of the corporation should continuously engage itself in evaluating the capital expenditure, excuting the capital expansion programmes and suggesting measures for bringing economy and efficiency. It may also be seen from table No. 7.1 that the corporation has been depending upon loans as a major

part payable is increasing continuously.

RATIO ANALYSIS :

For judging the financial performance of the corporation it is essential to study some of the important performance ratios which are compiled in the following table No. 7-5.

TABLE NO. 7.5

Statement Showing Performance Ratios of UPSRTC

Particulars	1981-82	1982-83	1983-84	1984-85
Sales & Service to capital employed	15%	13%	14%	13%
Net profit to capital employed	-13%	-3%	-13%	8%
Gross profit to capital employed	-6%	+5%	-4%	0.2%
Net pfofit to net worth	Loss	Loss	Loss	Loss
Value added to capital employed	15%	15%	13%	13%
Inventory to sales & services	24%	25%	28%	27%
Sales to Gross block	14%	16%	14%	15%

Source : Annual Reports of UPSRTC, H.O. Lucknow 1986-87.

It is evident from the table no. 7-5 that the performance ratios of sales and services to capital employed, sales to gross block and value added to capital employed all indicate definite improvements in the performance the corporation over all years. However, a comparison with the performance ratios of public sector undertaking of the central government taken as a whole, upts UPSRTC at a low estimation. From the performance review of 121 PES of the central government it may be observed that in 1977-78 the ratio of net profit to capital employed was nearabout 3% as compared to 3% and -13% Similarly, the ratio of gross profit to capital employed was 7.6% as compared to 0.2% and -6% in case of UPSRTC

Thus Judged from any standard, the financial performance and position of UPSRTC, can not be said to be satisfactory. Accumulated losses are sufficient to elemonstrate bad planning and inefficent management. The deplorable financial position has been caused of by irregular services, cureles sness of staff, employees' unrest, lack of capital high percentage of inventories, lack of comfortable buses, high freight etc. All these problems have been analysed in this volume in detail at appropriate places in the different chapters and measures have been also suggested to solve them.

TABLE NO. 7-6

Statement showing Key performance of UPSRTC

Performance Indicators.	82-83	83-84	84-85	85-86	86-87
1. Fleetutilisation (percentage)	74	72	72	76	84
2. Occupency Ratio (percentage)	74	70	66	73	76
3. Income per Km. (in paisa)	295	318	330	361	381
4. Expenditure P.K. (in paisa)	352	359	367	385	376
5. Profit/Loss per Km. (in paisa)	(-)57	(-)41	(-)37	(-)24	(+)5
6. No. of Employees	48562	47862	47779	47668	49564
7. Bus staff ratio	10.58	9.38	9.32	8.60	8.25

Source : " Compiled from ' A Hand book of U.P. State Bublicsector Enterprises" Sarvajnik Udyam Bureau Uttar Pradesh Lucknow (U.P.)

Financial and physical performance of UPSRTC has not been quite satisfactory. It is clear from the above table No. 7.6 that the fleet utilisation by the corporation were increasing, while occupency ratio shows decreasing trend Its reason is unauthorised operations by the private operations on nationalised routes.

The income per kilometer of UPSRTC has also been on the increase from year to year. It increased from 295 paisa per Km. 1982-83 to 318 paisa in 1983-84 and 381 paisa in 1986-87. But this income per Km. earned by the corporation is less than another state's corporations. The progress of UPSRTC has not been quite satisfactory from the point of kilometerage earned by buses and no. of travelled passengers. The position in fact, has been worse during 1984-85. Though bus-staff ratio is in decreasing trend yet there are no any deficiency in the expenditure of per item. The bus staff ratio was 10.58 in 1982-83 while it decrease to 8.25 in 1986-87 . Against its, the expenditure per Km. increased from 352 paisa in 1982-83 to 376 paisa in 1986-87.

Hence, it is clear the performance of UPSRTC has not been impressive. It is beset with many complex internal as well as external problems, such as leakage in revenue from varied sources, inadequacy of available resources, problem of modernisation repairs and replacement of old buses, proper and effective management of various depats and work shops, effective cheeking of buses, puntuality of buses in operation etc. Its expenses are increasing whereas the revenues are not increaing in the

same proportion. The gap has not been bridged in concerted manner. The problem of arrangement of capital resources for purchase of new buses and replacement of old exist. . Concerted efforts, on various directiors are needed to tackle its problems, and to bring about desired inprovement in its financial performances.

CONCLUDING OBSERVATIONS AND SUGGESTIONS

The importance and need for public sector has been emphasised time and again by various authorities including our all Prime Ministers at various forums. The various industrial policy resolutions and five year plans adopted by our country have assigned a key role for the public sector and have reserved some core sectors for development, only under public sector.

The public sector in India has been devised as a tool to gain control over the commanding height of the economy, to promote critical development in terms of social gains to provide commercial surpluses to correct regional imbalances in the economy, to provide employment opportunities to the vast labour forces and to ebtablish a socialist society in the country.

The growth of public enterprises in India as well as in various states has been phenomenal since the commencement of Five year Plans. State enterprises in U.P. consists of 53 Corporations registered under the companies Act and 8 public corporations setup under separate statutes. There were only 10 enterprises by the end of 31st December, 1967 and 17 by the end of 1972. Their number sharply rase to 53 by 1977 and further to 61 by 1987. Besides these, there are 24 subsidiary companies of these enterprises.

These state enterprises, like public enterprises in India are mainly functioning in the area of development and promotional activities, which are predominantly manufacturing and trading in nature. State enterprises are mostly either old units being run by the Governments or extension of department at services being rendered.

These state enterprises, have been set-up mainly to provide infrastructural facilities in various sector like industries,

agriculture, handicrafts, handloom etc

- to manage the public utility system
- to safeguard and expand employment opportunities and diversity the states production potential in terms of value added,.
- to uplift and help the economically weaker section of the society and minorities,

The basic philosophy for setting up these state enterprises is to bring about a result- oriented, cost-benefit approach to the developmental activities, accelerate growth in different sectors of the ecomomy. Settling up of these numerous enterprises reveals the state Governments' desire and intentions bring about rapid all-round growth of the state, with its major resources and use of institutional finance.

In the analysis made in the preceding pages, an attempt has been made to direct some of the financial problems of U.P.State Road Transport Corporation. Though there are many problems attached with the corporation such as problems of personnel management, and industrial management but we have mainly taken up on a study financial management problems and have made an attempt to analyse therein detail.

This study comprises of seven chapters. Various conceptual aspects of financial managementhave been dealt with earlier and various functions, objectives of financial management have been discussed in detail. An attempt has been made to analyse the financial management of Public

enterprises. Development of Public enterprises in U.P. States has been studied. A brief introduction of U.P. State Road Transport Corporation has also been given. The research methodology i.e., selection of sample and collection of data has also been briefely described. The data of study have been drawn mainly from secondary sources, which have been availed from the Head Office of U.P. State Road Transport Corporation, Lucknow, Sarvajanik Udyam Bureau Uttar Pradesh, Lucknow and other related agencies. The reports of comptroller and Auditor General on public enterprises have also been helpful to get the desired information regarding this study.

The U.P. State Road Transport Corporation has a unique place in the economy of Uttar Pradesh. It is one of the most important state level public enterprise. Hence, the scope of study has also been dealt with.

The necessary statistics for a period of 10 years from 1976 to 1987 have been collected from the annual reports issued by the U.P. State Road Transport Corporation.

We have dealt with growth of public enterprises in Uttar Pradesh. A brief study also has been made with the concept of Public sector particularly with reference to India. The economic growth of the state has been also studied. The growth of public enterprises during pre- independance and past independance period has been studied. Prior to independance, the role of public enterprises in the State

was rather limited. The state government evinced interest for encouraging the public enterprises only after independance This is clear from the fact that in 1950-51 there were only three state government industrial and commercial enterprises. 61 public enterprises have been established upto Dec. 1989, in the state, out of the 36 public enterprises were established in the period from 1972 to 1977, while 25 public enterprises were established in other period.

An analysis of employment position in these enterprises reveals that at the end of year 1972-73 there were about 1.11 lakhs employees at the end of 1987-88. The total investment in 61 enterprises was Rs. 5,63,074 lakhs at the end of the 31st March, 1987.

An attempt has been made to study the history of Road development. The U.P.State Road Transport Corporation was set-up on June 1st, 1972 as a statutory corporation under Road Transport Act, 1950 - with a view to provide adequate transport facilities. At the end of first five years plan (1955-56) the total investment increased to Rs.446.94 lakhs with net profit Rs.12.58 lakhs, while this increased Rs.225.81 Cr. upto 1987.

The growth of U.P.State Road Transport Corporation has been quite spectacular, judged from the point of number of routes and distances in the first decade of its existance (1972-82). The number of routes increased from 1111 in 1982 from 1972. The distance of routes increased from about 145 thousand Kms to about 288 thousand Kms in 1981. Today, U.P. State Road Transport Corporation is playing its fleet of buses on all important routes of the state. It had a fleet

of 7,151 buses, 152 trucks and 67 taxies as on 31st Dec.1987.

The growth of UPSRTC from the point of city bus service has not been satisfactory viewed from the total number of passengers travelled. The total number of passengers travelled by the city buses were 967.86 lakhs in 1979-80. It increased by 592.11 lakhs only in the year 1986-87. The growth of UPSRTC from the point of employment has been satisfactory. The total employment provided by UPSRTC was 51802 employees at the end of 31st Dec.1987.

We have studied the governing board and management of UPSRTC briefly. In UPSRTC, a mixed form of functional and policy board operates. The board had been consisting of the Hon'ble Minister of Transport as a Chairman and Chief Secretary, Finance Secretary and Deputy Secretary Transport and Transport Commissioner as member. The overall control of the corporation has been vested in the board of directors constituted in accordance with the provision of Road Transport Corporation Act 1950. In UPSRTC, two third members were oppointed by the state government and one third members were oppointed by the central government. The member tenure will be for one year from the date of assumption of office and they were entitled for reappointment. The board of directors has power to appoint bus drivers, conductors, clerks and servants. It may also determine the powers and duties of various personnels. It may also remove, suspend or terminate the staff as well as officers.

An effort has been made to analyse the long term and short term financial management in UPSRTC. An attempt has

has been made to study the meaning and importance of financial management. The following factors have been discussed with special reference to UPSRTC :-

(i) Trading on equity

(ii) Capital gearing

(iii) Cost of capital

(iv) Maximum control

(v) Cash flow ability

(vi) Flexibility of the company

(vii) Size of the company

The total capital invested in UPSRTC has been increasing from Rs.69.27 cr. in 1975-76 to Rs.428.25 cr. in 1987-88. We found that the equity base has been increasing from 217 % in 1975-76 to 36.3 % in 1987-88. The U.P. Government has placed at the disposal of the corporation Rs.12 Cr. as a equity capital which increased Rs.118.70 cr. in 1987-88. Similarily, the cnetral government contributed Rs.3.00 cr. in 1975-76 as equity capital. The internal resources of UPSRTC also increased. The total reserves amounted to Rs.25.19 Cr. in 1975-76 and which increase to Rs.199.6 Cr. at the end of year 1987. The UPSRTC has depended mainly upon the financial policy of government so far its long term capital resources are concerned. After studying and analysising the long term financial management, working capital management of UPSRTC has also been studied. The probitability of a business mainly depends upon how the working capital is

managed. Proper management of working capital may result in greater profitability. There are two concepts of working capital, viz., gross working capital and net working capital. The net working capital in UPSRTC has been increasing regularly The working capital was Rs. 983.49 lakh in 1977-78 which increased to Rs.3183.43 lakh at the end of 31st March 1986.

Ratio analysis has also undertaken to judge financial performance of UPSRTC. The ratio of Return On Investment, we found that the position of earning capital of UPSRTC is very dangers for the long and short term creditors. The recognised standard for the judging the quick or acid test ratio is that it is taken to be satisfactory if it is 1:1. In case of UPSRTC the liquidity position of corporation was satisfactory. Similerily, the current ratio of 2:1 indicates quite helpful in discharging current liabilities without any difficulties. In case of UPSRTC we find the best possible liquidity situation prevailed during 1977 to 1980-81.

The growth of working capital in UPSRTC has been measured by computing Multiple Correlation, between net working capital and sales services. A very high degree of possitive co-relation has been found in case of UPSRTC.

The financial performance of UPSRTC has also been analysed under the following sub-heads:-

(i) Cost analysis

(ii) Capital analysis

(iii) Revenue analysis

(iv) Financial performance and

(v) Key performance ratios.

We have found that paid-up capital of the

corporation upto 1986-87 stood at Rs. 14471.32 lakh. All the shares are owned by state and central government. Various items of cost in UPSRTC are continuously increasing. The total cost on personnel salary and wages amounting to Rs.3626.93 lakhs in 1982-83, while it increased to Rs. 5791.77 lakhs in 1986-87. Similarily, the revenue of the corporation has also been increasing. Yet, it has been incurring losses due to increase in various costs. The income from all the sources were near about Rs. 31 crores on the 31st March 1987.

The accumulated loss incurred by the corporation amounted to Rs.7732 lakhs as against paid-up capital of Rs. 36982 lakhs, upto 1986-87. Financial and physical performance of UPSRTC has not been quite satisfactory. Bus-staff Ratio was 10.58 in 1982-83 while it decereased to 8.25 in 1986-87. Similarily the occupancy ratio was 74 in 1982-83 against 76 in 1986-87.

MAIN FINDINGS:

From the study of some of the problems related to the financial management of state enterprises in general and UPSRTC in particular several important conclusions have been arrived at ;

We find that the board of management of UPSRTC requires persons having such qualities which combine the efficiency of private management with the concern for the public interest. From the analysis of the articles of association of UPSRTC and from the study of the structure of board, it has been observed that no specific qualifications have been laid down for the oppointment of the members of the board. The ratio of the part-time members is disproportionately higher and most of the part-time members are nominated in the board on the basis of offices held by them in Government Departments and not on the basis of any experience - in the transport field. It has been also observed that efficient Regional Managers are offered more emoluments in private sector undertakings as compared to public sector. Hence, this has prevented the regular flow of best managerial talents to it. It has also been observed that within a brief time most of directors have not been able to work for the full-term. Such a floating situation has prevented them from benefiting the Corporation by their knowledge. We find that the state Government retains wide power of control over UPSRTC and thus there is a truncated delegation of authority.

While the span of Vovt.control is wider than the need be, the control is neither adequate nor effective.

It is observed that higher inventory ratio is maintained by the UPSRTC in comparison to other public enterprises. A high inventory ratio blocks the effective use of capital and reduces the margin of profit. One of the causes of high inventory holding in UPSRTC is the punchase of spares and accessories in a larger quantity than needed.

A sound financial management and control has remained at a relatively low level in state public enterprises. It is evident from the fact that there is no uniformity in financial practices and rules in all state enterprises. In UPSRTC, though there is a Finance Division, yet satisfactory arrangement for consultation with the finance is lacking. On many times, the sound advise of the Director Finance has been ignored by the other executives of the corporation, resulting in excess purchase of spares and fuels and wasteful expenditure like other public enterprises in state, the budgetary control in UPSRTC is not effective as the budget is viewed more as a tool of allocation of resources than a weapon of control. Generally, it so happens that the capital budget is received by the ministry at the time when general budget is presented. Without any detail examination of the proposals the budget is included in the general budget for appropriation.

A system of effective cost control is yet to be introduced in many state enterprises including UPSRTC. It has been observed that the audit rules have been modelled on the rules of the central Govt. and there is ample scope for simplifying them.

The functioning of UPSRTC shows a little evidence of financial discipline. Hence, an effective Government Control is essential over their finance. The present system of external audit is defective as it is a fault finding in nature and is mainly concerned with the certification of balance sheet and profit and loss accounts.

The legislative control over the finance of state enterprises including UPSRTC is not effective as the annual reports submitted by them are simply laid on the table of Vidhan Sabha and separate time for discussion on these reports is not allowed. The these annual reports have got only informative value. Morever, the annual reports are not sent in time to the Vidhan Mandal and there is no uniformity in the forms and contents of the reports of state enterprises.

It has also been observed that the problems before UPSRTC are innumerable and complicated indeed. Its expenses are increasing whereas the revenues are not increasing in the same proportion. The gap has got to be bridged in the concerted manner.

We find that the problem of arrangement of capital resources for purchase of new buses and replacement of old one indeed appears to be quite insurmountable. However, the resourcesmust be obtained on the reasonable terms from various vailable sources. It is also seen that the corporation has paid a lot of amount against interest to central as well as state governments. An analysis of financial performance of UPSRTC, reveals that the expected profitability of the corporation is very low and quite unsatisfactory. The debt-equity ratio is maintained at a low level with the result the management hesitates to take risk in raising loans. The limit of cash-credit arrangement with bank is also very low. It has been observed that the government loans are frequently converted into shares and concession is allowed in deferring repayment of loans and interest. It is done without much difficulty hence management of the corporation hardly brothers for adequate return on capital. Though the corporation has accumulated huge losses the trend is,however,towards gradual decline in losses, ultimately resulting in a measgre profit of 2.52 crores in 1987-88.

SUGGESTIONS :-

Modern economic activity requires speedy of men and materials. The development of adequate facilities is highly essential for the growth of economy. The economic and social progress of all the nations of the world collectively depends upon rapid and efficient reliable transporation services by rail, road and airline. The road transport is a vital sector of the indian economy and its development is directly linked with the growth and development of road transport.

Though, the number of public enterprises have increased with total investment yet many of them are running on haveay losses. U.P.State Road Transport Corporation is also in the same category. There are many problems connected with the corporation, viz., industrial management problems, personnel management problems, financial management problems and others. But in view of foregoing findingsand analysis the following suggestions are submitted to improve the financial management of UPSRTC.

1. It is suggested that all the loans provided by central as well as state government should be converted into equity capital and step should be taken to curtail working expenses.

2. A financial advisor be appointed to ensure that financial considerations are given their due weight before incurring expenditure.

The transport budget should be presented to the Legislative Assembly separately and separate days should be alloted for the discussions and Hon'ble Minister in-charge of Transportation should make a general statement. The Corporation should be directed to submit its annual reports in time in an approved form stating therein detailed informations regarding cost, capacity, quality of services, quantity of buses comparative performances, future plans and past operations. Though the wide powers have been retained by the Government in respect of financial control over the corporation, yet these should not lead to undue interference and operational efficiency. An independent audit by the Comptroller and Auditor General should be invoked whenever the statutory audit point out grave irregularities. It is suggested that suitable ammendment may be made in the Memorandum and Articles of Association of UPSRTC. There should be experienced and qualified members for the Board of Directors. In any case, the ratio of part-time members should not exceed 50% of total strength of the Board. Not more than two part-time representatives, outside the government, be nominated. These nominations should be based on their experience in the related field.

It should be suggested that the state Government should reduce its span of control in internal management of UPSRTC granting it proper autonomy There is hardly any logic in reserving the power of sanctioning organisational set-up, approval of rules of recruitment and promotions etc by the corporation.

It is suggested that the separate finance division should be created in the corporation for effective financial control and management. The Chief of the finance should have some independence and in case of disagreement with Regional Manager and other Chief-Executives, the matter should be referred to the Board of Directors for final decision. Model financial rules should be adopted by the division.

The mismanagement of stores and spares and other accessories should be examined by an expert committee before signing the contract with the callaborations. Regular inspection of stocks can reduce the workshop expenditure substantially.

The management of UPSRTC should allocate more funds for welfare facilities of the employees. It should pay more attention towards prevention of acciddent and safety. It will boost the high morale of employees.

The total capital of UPSRTC has been continuously increasing. The proportion of internal resources in total capital has not been more significant during 1977-78 to 1981-82 and whereas proportion of loan taken by corporation from the various financial institutions increased during the same period. We also analysed and find the debt-equity ratio is almost 1:1 after 1979-80, while payable interest of U.P.Government was transferred to capital contribution from 1977-78 to 1981-82. Therefore, it is suggested that a liberal debt policy should be allowed to be followed by the UPSRTC and debt-equity ratio should be maintained at 2:1. The limit of Cash-Credit arranggment should be raised. Before making funds available to UPSRTC the government should be asked for the expected return on invested capital and management must give guaranttee to achieve the expected return. Though the aim of corporation is to provide the adequate and corfortable transport facilities to the people of the stateand functioning on a no-profit-no-loss basis, yet it is necessary that the corporation should maintain necessary financial discipline.

Total loans and advances given to its staff drawn its huge resources. Total advancds taken by the staff was Rs. 399.32 lakh in 1978-79. Although

it decreased in 1979-80 to Rs.223.58 lakhs but it suggested that the effective steps shold be taken for refund of loans and advances taken by V.I.P. and the interest on the loans (near about 9%) should be charged strictly.

12. UPSRTC is a service industry and its sorking capital requirements is lower as compareed to commercial enterprisss. It gets working capital funds from government and other financial institutions. Therefore, the corporation intends to maintain a very low margin of safety. Hence, it is suggested that the corporation should maintain its optimum level of working capital to liquidate its short-term obligations and they face problems of raising funds smoothly.

13. The UPSRTC does not present a satisfactory picture in financial areas. It has been incurring losses continuously, which indicates lack of managerial efficiency. Hence, it is suggested that management should take necessary action to control the leakage in revenue and turn out the evils and carelessness of Roadways employees.

The study of the working of the UPSRTC thus clearly demonstrate that itis not being managed efficiently. It may be evident from the analysis of the findings arrived at, that

there are many problems related to management and there is managerial incapabilities in handling the affairs in an effective manners such as - inadequacy of available resources, problems of modernisation repairs and replacements of old buses, proper and effective management of various depots, workshop, effecting checking of buses in operation etc. Hence, it is suggested that all necessesary steps should be taken by the management to tackel the problems of the corporation to bring desired improvement in its financial performance. Only then, it would be able to provide efficient, adeuate, economical and properly co-ordinated system of road transport service to the people of the state.

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ANNEXURE 4-A

GOVERNING BOARD OF UPSRTC

YEAR 1985-86

S.No.	Name and Address.	Designation
1.	Shri Vinod Prakash Sahni, I.A.S, Secretary U.P.Government Transport Deptt. Lucknow.	Chairman
2.	Shri V.K.Deewan IAS Managing Director, UPSRTC, Lucknow	Director
3.	Special Secretary, IAS U.P.State Govt. Finance Deptt. Lucknow	"
4.	Transport Commissioner, IAS, U.P. Lucknow	"
5.	Secretary, IAS U.P.Govt. Bureau of Public Enterprises, Lucknow.	"
6.	Lt.Col. N.P.S.Chaudhary, Technical Claiment Town, Dehradoon	"
7.	Shri Kashi Singh, Technical Bansganw, Gorakhpur.	"
8.	Shri Jagmohan, Technical Civil Lines, Faizabad	"
9.	Shri Madan Mohan Shukla " Kanpur	"
10.	Shri Baka Usmani " Kesharwani Lodge, Lucknow.	"
11.	Additional General Director (Road), IAS Ministry of Shipping and Land Transport, Govt. of India, New Delhi.	"

S.No.	Name and Address	Designation
12.	Commissioner(Soleshiam Fund) IAS Ministry of Shipping & Land Transport (Transport Wing) Govt. of India, New Delhi.	Director
13.	Deputy Secretary (Road Transport), IAS Ministry of Shipping and Land Transport (Transport Wing) Govt. of India, New Delhi.	"
14.	Chief Commercial Superintendant, Technical East-North, Railways, Gorakhpur.	"
15.	Chief Marketing Superintendant Technical Northern Railway New Delhi.	"

Total No. of members in Board of Directors in UPSRTC, including Chairman, were 15, in which 7 members were Technical hand and 8 members were bureaucrates in year 1985-86.

XIII.

GOVERNING BOARD OF UPSRTC

YEAR 1986-87

S.No.	Name and Address		Designation
1.	Shri Jagdish Khattar Secretary, U.P.State Govt. Transport Department, Lucknow.	IAS	Chairman
2.	Shri V.K.Mittal Managing Director, UPSRTC, Lucknow	IAS	Director
3.	Special Secretary U.P.Govt. Finance Deptt. Lucknow.	IAS	"
4.	Transport Commissioner, U.P.Lucknow	IAS	"
5.	Shri R.K.Mittal S.General Director Public Enterprises Deptt. U.P.Govt. Lucknow.	IAS	"
6.	Lt.Col. N.P.S.Choudhary 100-Turner Road, Dehradoon	Technical	"
7.	Shri Kash Singh Gorakhpur.	"	"
8.	Shri Jagmohan Singh Faizabad	"	"
9.	Shri Madan Mohan Shukla Kanpur	"	"
10.	Shri Baka Usmani Kayamganj, Farukkhabad	"	"

S.No.	Name and Address	Designation
11.	Chief Engineer Shipping and Transport Ministry, Govt. of India, New Delhi.	Technical Director
12.	Commissioner (Soleshiam Fund) Ministry of Transport (Water & Land Deptt) Govt. of India, New Delhi.	IAS "
13.	Deputy Secretary Ministry of Transport (Water and Land Deptt) Govt. of India, New Delhi.	IAS "
14.	Chief Commercial Superintendant North-East Railway Gorakhpur.	Technical "
15.	Chief Marketing Superintendant Northern Railway, New Delhi.	" "

In the year 1986-87, there remain same situation of 1985-86. No changes have been made in the governing Board of UPSRTC.

BOARD OF DIRECTORS OF UPSRTC

FOR THE YEAR 1987-88.

S.No.	Name and Address		Designation
1.	Shri Jagdish Khattar Secretary, U.P.Govt. Transport Deptt.Lucknow.	IAS	Chairman
2.	Shri V.K.Mittal Managing Director, UPSRTC	IAS	Diredtor
3.	Special Secretary U.P.State Govt. Finance Deptt. Lucknow.	IAS	Director
4.	Smt. Neera Yadava Managing Director Bureau of Public Enterprise	IAS	Director
5.	Shri Ishwar Dayal, Director, Indian Institute of Management, Lucknow.	Professional Director	
6.	Shri Kashi Singh Gorakhpur	Technical	Director
7.	Shri Madan Mohan Shukla	"	Director
8.	Chief Engineer(Road) Ministry of Transport Central Government, New Delhi.	"	Director
9.	Shri Katar Singh Saharanpur.	"	Director

S.No.	Name and Address		Designation
10.	Deputy Secretary (Road Transport) Department of Shipping & Land) Central Government, New Delhi.	IAS	Director
11.	Chief Commercial Superindant NortherEast Railway Gorakhpur.	Technical	Director
12.	Chief Marketing Superintendant Northern Railway, New Delhi.	"	Director

Total number of Directors including Chairman were 12 for the year 1987-88.

Source: Annual Report of UPSRTC 1987-88.

ANNEXURE 4-B

INDEX OF AUTOMOBILE&WORKSHOP OF UPSRTC

S.No. Zone/Region

(A). Northern Zone

1. Bareilly Region
   1. Bareilly(Regional)
   2. Bareilly (Rural)
   3. Bareilly(City-Bus)
   4. Shahjahanpur (Depot)
   5. Badaun (Depot)
   6. Pilibhit (Depot)

2. Moradabad Region
   1. Moradabad(Regional)
   2. Mor.dabad (Depot)
   3. Bijnaur (Depot)
   4. Rampur (Depot)

3. Nainital Region
   1. Kathgodam (Regional)
   2. Kathgodam (Depot)
   3. Haldwani (Depot)
   4. Ranikhet (Depot)
   5. Rudrapur (Depot)
   6. Bhuwali (Depot)
   7. Almora (Depot)
   8. Kashipur (Depot).

4. Tanakpur Region
   1. Tanakpur (Regional)
   2. Tanakpur (Depot)
   3. Pithoragarh (Depot)
   4. Lohaghat (Depot).

S.No. Zone/Region

(B).MIDDLE ZONE

5. Lucknow Region
   1. Terhikothi (Regional)
   2. Terhikothi (City Bus)
   3. Charbagh Lucknow(Depot)
   4. Oliwar Road (Car Section)
   5. Lucknow (Depot)
   6. Kesarbagh (Depot)
   7. Sitapur (Depot)
   8. Raebareilly (Depot)
   9. Hardoi (Depot)

6. KANPUR REGION
   1. Kalpi Road,Kanpur (Regional)
   2. Chunniganj,Kanpur(Depot)
   3. Joohi Kanpur (Depot)
   4. Azad Nagar,Kanpur (Depot)
   5. Fatehpur)Depot)
   6. Unnao (Depot)
   7. Bewar (Depot)
   8. Etawah (Depot)
   9. Farukkhabad (Depot)
   10. Ouraiya (Depot).

7. JHANSI REGION
   1. Banda (Depot)
   2. Mahoba (Depot)
   3. Rath (Depot)
   4. Jhansi (Depot)
   5. Hamirpur (Depot).

S.No.	Zone/Region	S.No.	Zone/Region

8. FAIZABAD REGION
   1. Faizabad (Regional/Depot)
   2. Gonda (Depot)
   3. Balrampur (Depot)
   4. Sultanpur (Depot)
   5. Akbarpur (Depot)
   6. Amethi (Depot).

(C). WESTERN ZONE

9. Aligarh Region
   1. Aligarh (Regional)
   2. Aligarh (Depot)
   3. Etah (Depot)
   4. Hathras (Depot)
   5. Kasganj (Depot).

10. Agra Region
   1. Edagah Agra (Regional)
   2. Edagah Agra (City Bus)
   3. Edagah Agra (Depot-Rural)
   4. Fort Agra (Depot)
   5. Foundry Nagar (Depot)
   6. Mathura (Depot)
   7. Shikohabad (Depot)

11. Ghaziabad Region
   1. Amrit Nagar (Regional)
   2. Khurja (Depot)
   3. Bulandshahar (Depot)
   4. Loni (Depot)
   5. Hapur (Depot)
   6. Sikandrabad (Depot)
   7. Sahibabad (Depot)

12. Meerut Region
   1. Meerut (Regional)
   2. Meerut (Depot)
   3. Muzaffarnagar (Depot)
   4. Garhmukteshwar (Depot
   5. Roorkee (Depot)
   6. Sohrawgate, Meerut"
   7. Katawli (Depot)

13. Dehradoon Region
   1. Dehradoon (Regional)
   2. Dehradoon (Deluxe (Depot)
   3. Dehradoon (Rural Dept
   4. Haridwar (Depot)
   5. Saharanpur (Depot)
   6. Kotdwar (Depot)
   7. Dehradoon (Hill ")
   8. Dehradoon (City Bus)
   9. Chhutmalpur (Depot)
   10. Rishikesh (Depot).

(D). EAST ZONE

14. Varanasi Region
   1. Varanasi (Regional)
   2. Jaunpur (Depot)
   3. Varanasi (City Bus)
   4. Varanasi (Rural)
   5. Robertsganj (Depot)
   6. Ghazipur (Depot).

S.No.	Zone/Region
15.	Azamgarh Region
	1. Azamgarh (Regional)
	2. Azamgarh (Depot)
	3. Doharighat (Depot)
	4. Baliya (Depot)
16.	Gorakhpur Region
	1. Gorakhpur (Regional)
	2. Gorakhpur (Depot)
	3. Basti (Depot)
	4. Deoria (Depot)
	5. Nawgarh (Depot)
	6. Birdghat (Depot)
17.	Allahabad Region
	1. Nawett Road, Allahabad (Regional)
	2 Alwert Road, Alld. (City Bus)
	3. Zero Road (Depot)
	4. Mirzapur (Depot)
	5. Jhoonsi (Depot)
	6. Pratapgarh (Depot).
	Total Workships = 111

GLOSSARY OF TRANSPORT TERMS

This glossary is based on the glossary published by the Central Institute of Road Transport of the association of State Road Transport of India and gives the authorised definition of transport terms, concepts and method of their computation.

1. Average Number of Vehicles Held

The average number of vehicles held during any specified period can be arrived at by adding the total number of vehicles held by the unit from day to day in the period and dividing by the total number of days in the period.

2. Average Number of vehicles in Workshop

The average number of vehicles in workshops during any specified period can be arrived at by adding number of vehicles in workshops from day to day during the period and by dividing the total vehicle days for such vehicles so arrived by the number of days in the period.

Average number of vehicles in workshops can be similarly worked out separately for each category or condition viz:-

(i) Under routine inspection

(ii) Off-road vehicles

(iii) awaiting scraping.

3. Average Distance Travelled Per Passenger

The average distance travelled per passenger indicates the average length of the journey performed by passengers. This is calculated as under-

$$\frac{\text{Total passenger per kilometers}}{\text{Total number of passengers carried}} = \text{Average distance travelled per passenger}$$

(ii).

Average Earnings per passenger-

This index reflects the travel pattern of the passengers. It is the ratio of total earnings from passengers to total number of passengers.

5. Cost of Operation-

The total working cost incurred in connection with the business of transportation of passengers is termed as 'cost of operation' or operating cost. The operating cost includes all items of expenditure incu red in connection with operation of services including depreciation and interest on capital and appropriation from the net revenue but excluding income tax.

The total cost of operations can be classified into-

(A) Direct operational cost or variables cost

(B) Indirect cost or Fixed cost or Overheads.

(A). All items of costs which have to be incurred for the actual running of the vehicle are known as direct operational cost or variable cost. In other words, the costs that can be assigned to the service and which would not be incurred if the service is not operated or classified under this group. The direct operational cost is also termed as 'running cost' or 'Population cost' and includes the following items.

(i) Fuel (ii) Lubricating Oil (iii) auto stores (iv) tyres and tubes (v) Depot traffic and maintenance staff (vi) cost of tidket equipments and traffic stationary (vii) Depreciation on vehicles and (viii) Passenger tax.

(B). The indirect cost, fixed cost or overhead cost includes such items of expenditure which have to be incurred whether or not a vehile is actually run, and irrespective of the

volume of operation. Such cost are not affected by increase or decrease in the volume of operation over short period. Increase or decrease in kilometers operated is not followed by proportionate increase or decrease in overhead costs. Indirect costs consist of such expenses incured on behalf of the operation as a whole and cannot be assigned to any particular service or part of the operations. The following items can be classified as indirect or fixed or overhead cost-viz-

(i) MV Tax (ii) Passenger tax (iii) Other tax and insurance (iv) depreciation on assets other than vehicles (v) Interest on capital/loans etc. (vi) General administration expenses including contingent expenses and (vii) All other expenses not included under direct operational costs.

6. . Cost per Kilometer-

As in case of revenue, the cost of operations in absolute does not by itself indicate the efficiency or otherwise of the service operated. A relative measure of costs has to be worked out to compare the cost of producing the service with rate of earnings. Cost per kilomters is one of such relative measures, which is computed by selecting effective kilometers as a unit of measurement.

The cost per kilometer is computed by dividing the tototal cost of operations by the total effective kilomters.

The cost per kilometer can be worked out either in respect of each component of the cost separately.

7. Capital Receipts-

Capital receipts represent the money receives from the participating governments as contribution towards the capital investment in the undertaking for utilization for acquisition of permanent assets to run the business. Borrowed capital raised through issue of debentures or through loans from banks and other financial institutions and utilised for acquisition of assets also constitute capital receipts. Similarly, amount financed from internal resources for acquisition of assets also constitutes a source of capital receipts.

8. Capital Expenditure-

Capital expenditure represents all expenditure incurred in the acquisition of permanent assets which are intended to be continuously used in the business of the undertaking for purpose of earning revenue. Thus, the expenditure incurred for acquiring assets such as land and buildings, plant, machinary and equipments, motor vehicles and similar assets by way of permanent equipment for carrying on the business of transportation of passengers are classified as capital expenditure.

Any amount spent on extension or improvement of the existing assets with the aim of increasing their revenue earning capacity is also classified as capital expenditure.

9. Capital Employed or Invested-

The cumulative expenditure on permanent assets at a point of time represent the total capital employed or capital invested in the organisation.

Mean capital employed is equal to-

$$\frac{\text{Capital employed at the beginning of the year + Capital employed at the end of year}}{2}$$

10. Gross Profit-

The excess of the total gross revenue over the revenue expenditure is the gross profit margin and the excess of the total gross revenue over the total cost of operation (including depreciation and interest) is the net profit margin. The net profit margin is usually arrived at before charging income tax.

11. Gross Revenue-

Total revenue derived from all the sources constitutes "gross revenue" or 'total revenue".

12. Earning Per kilometers-

The earning per kilometer is the ratio of total earning the total effective kilimeters. Earning per kilometer is one of the useful ratio to indicate the earning potential of a route/depeot/division/organisation. The EPK is related to the carrying capacity of the buses fare structure and the earning the earning potential of route.

13. Earning per bus-

When a bus is selected as a unit of measure, the resultant rate will be earnings per bus. Earning per bus can be expressed either in terms of number of buses on road. It is calculated as follows-

$$\frac{\text{Total earning during the period}}{\text{Average number ob buses on road or held during the period.}}$$

The average earning per bus per day can be arrived at by dividing the above ratio by the number of days in the period.

14. Fleet Utilisation or vehicular Utilisation-

Fleet utilisation, also termed as vehicular utilisation is the ratio of the number of vehicles on road to the fleet held by the unit. Fleet utilisation is always expressed as percentage and it is a measure of the efficiency of the engineering department. It is/indicates how many of the total vehicles held or actually utilised for operations.

Fleet utilisation can also be calculated on the basis of the effective fleet that is to say the total fleet held minus vehicles held up for major repairs, scrapping etc.

15. Occupation Ratio or Occupancy Ratio-

Occupation ratio is the percentage ratio of passenger kilomters (seat kilometers sold) to seat kilometers offered. Thus-

$$\text{Accupation Ratio} = \frac{\text{Passenger Kilometers}}{\text{Seat Kilometers offered}} \times 100$$

This ratio is important since it throws light on the volume of traffic and indicates the extent the seats provided were occupied, and is of fundamental value at the time of revision of timings augmentation of trips and realignment of routes.

The accupation ratio is the most important statistical indicator pertaining to the adequacy or otherwise of the services offered to the public. A very low ratio may indicates the need for either reduction of trips or change of timings while a very high ratio may indicate either overloading or non availability of seats at intermediate points and the need to augment the services.

16. Operating Ratio-

The operating ratio is the percentage ratio of the total cost of operations or operating costs to the total traffic or operating revenue.

The operating ratio is arrived at as under-

$$\frac{\text{Total operating cost}}{\text{Total traffic/operating revenue}} \times 100 = \%\ \text{operating ratio.}$$

The operating ratio is the most general measure of operational efficiency and an index of economic operation of services. It is important to the management in judging its operations. The ratio when substracted from 100 percent shows the net operating margin available.

17. Profitability Ratios-

Profit margin can be measured in relation to the capital that is invested to earn it. The ratios that are usually employed to measure the profitability of the capital are-

(i) Percentage ratio of gross profit margin to the capital employed (on assets)

(ii) Percentage ratio of net profit margin to the capital employed (on assets)

(iii) Percentage return on capital (the percentage ratio of net profit before interest and taxes) the capital employed (on assets). This ratio shows the relationship between the size of profit and the capital employed.

Higher ratios, are indicative of better profitability of the capital invested.

18. Route Kilometers-

The actual distance in kilometers between to terminal points of a route as defined above is the route kilometers.

The total route kilometers operated by a depot/division

undertaking is the sum total of the actual length or distance in kilometers of all the routes in operation by depot/division undertaking.

19. Staff Employed-

The total staff actually working (on rolls) in the various units (Depot/Division/other units) as on the last day of a specified period will represent the total staff employed.

The staff will include the permanent as well as temporary employees including daily wagers actually working on the specified date but will exclude the substitutes working against leave/suspension vacancies.

The staff employed can be broadly classified into three group viz (i) Traffic (ii) workshop and maintenance (iii) Administrative .

(i) Traffic-staff-

includes drivers, conductors, other traffic operational staff such as controllersATIs and ATS, Ticket and traffic office staff at the depot and the divisional traffic office.

(ii) Workshop and Maintenance Staff-

Includes all workshop staff including supervisory staff at depot, divisional and central workshop but does not include staff employed on peropherial activities like tyre retreading, body building etc.

(iii) Administrative staff-

Includes all the staff other than that included in groups (i) and (ii) above. All the staff working in the Central offices irrespective of the department in which they are working are grouped as administrative staff.

20. Vehicles Utilization-

Kilometers done per vehicle on road per day is vehicle utilisation. It is a measure of efficiency of both the engineering and the traffic department. It indicates how much the vehicles made available for operations are used.

Usually vehicle utilisation is ecpressed in relation to gross kilometers. It can also be expressed in terms of Average vehicles utilization is worked out as under-

$$\frac{\text{Average gross/effective Kms. done per day}}{\text{Average no. of vehicles on road per day}}$$

and

$$\frac{\text{Total gross/effective kms. during the period}}{\text{Total vehicles days for vehicles on road during period.}}$$